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D 8523 B

Italy: vote gives Craxi unusual opportunity, Page 2

World news Business summary

Sri Lanka crisis talks as Tamils kill 86

Sri Lanka's Cabinet held an emergency meeting on the crisis arising from the death of at least 86 civilians when Tamil guerrillas took their separatist campaign into the city of Jaffna.

It was the first assault by the rebels on a predominantly Sinhalese area. Five Buddhist nuns, 25 other women and six children were among those who died when guerrillas disguised as soldiers sprayed gunfire into crowded streets.

There was speculation that the attack might have been in retaliation for the alleged killing of many Tamil civilians by the security forces. Page 4

Stockholm share prices fall again

STOCKHOLM share prices continued to fall as Swedish financial markets tried to come to terms with the dramatic tightening of monetary policy. The J&P index closed at 1,408.94, down 15.81. Page 3 and 31

Kyriakou under fire

Greek Cypriot opposition politicians are stepping up their campaign to force President Spiros Kyriakou to resign, blaming him for continuing deadlock in the Cyprus problem.

China stops warship

A visit to Shanghai by a U.S. warship has been postponed because of controversy over whether it would be nuclear-armed or powered. U.S. officials denied the visit had been cancelled. Page 4

Wales death threat

Solidarity leader Lech Walesa said he took seriously a threat to his life disclosed by a convicted murderer who claimed he was recruited to kill him.

Israeli elections

Israel's Labour Party emerged considerably strengthened from elections for the Knesset, trade union federation, which may encourage the party to dissolve the national union Government and hold general elections. Page 4

Lagos aliens held

Nigerian security forces escorted several thousand illegal aliens to Lagos from the Nigerian-Benin border after riot police opened fire on aliens attempting to flee into Benin.

Botswana blast

Gaborone, capital of Botswana, was rocked by a huge blast, believed to be a bomb, that killed a South African political refugee.

Libya connection

British businessman Geoffrey Shiner was charged in a London court with helping a relative of Libyan leader Col Muammar Gaddafi flee the UK to evade a drugs trial. Shiner was arrested on arrival from Egypt which deported him for allegedly plotting to kill one of Gaddafi's most prominent opponents.

Pacific bombs

Four bombs exploded in New Caledonia and police said more security forces might be called in to quell rising violence in France's troubled Pacific territory.

Sikh dies in custody

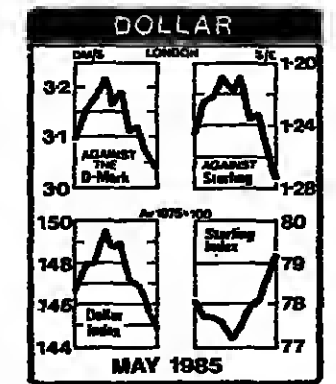
A key suspect in the Sikh extremist bombing offensive died in police custody in New Delhi, leading to charges in the Indian press that he was tortured.

Giscard wins ban

A Paris court ruled that passages concerning former French President Valéry Giscard d'Estaing's private life in memoirs by deposed Central African emperor Jean-Bedel Bokassa should be deleted.

Philadelphia fire

Three bullet-riddled bodies were recovered after police in Philadelphia bombed the headquarters of an armed black unit, causing a fire that destroyed 80 houses, left 240 people homeless and caused \$5m worth of damage.



Paris may harden line over joint European fighter

BY DAVID MARSH IN PARIS

THE FRENCH Government is coming under increasing pressure from its aerospace industry to harden its line with Britain over development of the joint European fighter aircraft (EFA) for the 1990s.

Divergences among the five nations discussing the project have heightened the possibility that France could decide to build its own fighter. A crucial meeting of defence ministers from France, Britain, West Germany, Spain and Italy is due to discuss the problem in Rome tomorrow.

The French Defence Ministry has been a strong supporter of the project, which would represent one of Europe's most important efforts to join forces in defence and high technology.

Government officials in Paris last night said they hoped the Rome meeting would give fresh "political impulse" to discussions which have shown signs of stalling in recent months.

They envisaged, however, that France's suggestion that the Eurofighter's weight should be 9.5 tonnes represented a "maximum," both for military reasons and to keep down costs. Britain's leanings towards a heavier aircraft still represented a point of "divergence."

Furthermore, officials now say that the prototype fighter Rafale - just unveiled by state-controlled Dassault-Breguet - should be a "reference basis" for the EFA.

French industrialists in recent weeks have hardened public pronouncements over the fighter partly to keep open options for export markets and also to avoid sharing technology in key areas with European partners.

M. Jacques Benichou, chairman of the state-owned engine maker Snecma, last night launched a renewed call for a dominant role in making the EFA's engine. France is pushing to use the company's M-88 engine, while Britain favours a derivative of the Rolls-Royce RB-199 developed for the three-nation Tornado aircraft.

Mr Benichou, who said he had already had talks with Rolls-Royce over the project, said he was not against co-operating with the British company provided Snecma had leadership and did not lose its capacity to design new engines.

He was speaking at a press conference giving Snecma's financial results for 1984. Consolidated profits rose to an estimated FFr 70m (\$15.2m) from rough break-even last year on turnover of FFr 12.6m.

Similar calls have been made in recent days by leaders of the French avionics and defence electronics industries, whose products can represent up to 50 per cent of the cost of a new fighter.

Dassault Breguet, manufacturer of France's Mirage jets, is also sticking uncompromisingly to its insistence on design leadership for the EFA. Significantly, M. Benno-Claude Vallieres its doughty 74-year-old chairman, who has put forward this view strongly in recent months, was yesterday given a new mandate to stay until October 1986.

A key factor arguing against a go-it-alone solution is the FFr 35bn cost of building a French jet force from its own resources. Government officials believe collaboration could cut unit costs by, perhaps, 20 per cent.

However, backing the industrialists' view that France has a lead in key technological areas of the fighter, officials said last night that development of Rafale needed to be continued as an insurance against lack of overall European agreement on the project.

Egypt sees chance of progress in talks with Israel

By Tony Walker in Cairo

EGYPT'S Foreign Minister is predicting a possible "major breakthrough" in talks beginning in Cairo today between Egyptian and Israeli officials on a territorial dispute in the Sinai that has helped sour relations.

Dr Esmat Abdel Meguid, in an interview with the Financial Times, said that if progress was made in resolving differences over Taba, a tiny beach resort on the Gulf of Aqaba, the way would be open for a summit meeting between Egypt's President Hosni Mubarak and Mr Shimon Peres, Israel's Premier.

Egypt wants the Taba dispute referred to arbitration by a third party, preferably the U.S. Dr Meguid revealed that a senior U.S. State Department official would be taking part in "tripartite" discussions on the Taba issue.

He said progress on settling the question of Taba, the most contentious parcel of disputed land left unresolved after Israel's withdrawal from Sinai in April 1982, would be "a major breakthrough in relations. It would open the road for the summit between the President and Mr Peres."

Egypt has chosen the Mena House Hotel near the pyramids for its most significant contact with Israel since before the Israeli invasion of Lebanon in June, 1982. It was at the Mena House in late 1977 that the first tripartite discussions were held following President Sadat's historic visit to Jerusalem.

If there is progress towards resolving differences over Taba one of three sticking points, according to Egypt, in the way of better relations - it is likely that the Egyptian ambassador to Tel Aviv will be returned in what Israeli officials are describing as a "package deal."

Egypt's ambassador to Israel was withdrawn in protest at the Lebanon invasion.

Other issues contributing to the "cold peace" between the two countries have been Israel's occupation of South Lebanon and its policies in the West Bank.

Dr Meguid, in an unexpectedly warm reference to recent developments in Israel, said the Israelis were "making efforts" in Lebanon and were trying to improve the quality of life in the West Bank.

Western officials in Cairo say that one of the conditions of U.S. assistance in reviving the stalled Middle East peace process is for Egypt to normalise its relations with Israel.

Gromyko and Shultz extend Vienna talks

BY ROBERT MAUTHNER, DIPLOMATIC CORRESPONDENT, IN VIENNA

MR GEORGE SHULTZ, U.S. Secretary of State, and Mr Andrei Gromyko, his Soviet opposite number, unexpectedly prolonged their talks in Vienna last night on arms control and other East-West problems.

The two ministers were meeting on the eve of the 30th anniversary celebrations of the Austrian state treaty, which marked the withdrawal of the second world war occupying powers - the U.S., Soviet Union, Britain and France, and guaranteed Austrian independence and neutrality.

At the end of a meeting in the Soviet Embassy which lasted for more than six hours, Mr Shultz said: "Our discussions were useful and they were comprehensive and they were detailed. They ranged over the issues that we normally discuss. We spent a heavy proportion of our time on the subject of arms control and in particular the Geneva negotiations."

The original intention was that Mr Shultz would make a statement shortly after 5pm local time, before attending a buffet supper for the 11 visiting foreign ministers, hosted by Mr Fred Sinowatz, the Austrian Chancellor.

One of the most important issues which Mr Shultz and Mr Gromyko were understood to be discussing was the U.S. proposal for a summit meeting between President Ronald Reagan and Mr Mikhail Gorbachev, the Soviet leader.

The Americans hope that this meeting can be arranged in September, when Mr Gorbachev is expected to be in New York for the session of the United Nations General Assembly.

The U.S. proposal was first made in a letter from President Reagan to Mr Gorbachev last March, on the occasion of the funeral of Mr Konstantin Chernenko, the late Soviet leader.

Moscow, however, has studiously declined to respond clearly to the U.S. suggestion, although it has expressed interest in the idea in very general terms. The sharp words addressed to each other's country by Mr Reagan and Mr Gorbachev during the recent 40th anniversary celebration of the Allied victory in Europe have hardly been conducive to a quick agreement on a date for the summit meeting.

The other important item on the agenda of yesterday's meeting was the nuclear arms control talks in Geneva, which are due to be resumed at the end of this month.

Mr Shultz and Mr Gromyko were understood to be trying to find ways and means of breaking the deadlock in the discussions, caused by fundamental disagreements between the two sides on how to handle both offensive and defensive weapons.

BASF world ink leader after \$1bn U.S. deal

BY TERRY DODSWORTH IN NEW YORK

BASF, the large West German chemicals group, is to expand its activities in the U.S. by more than 40 per cent with the acquisition of United Technologies' Inmont group of industrial companies for \$1bn.

The definitive cash deal, announced yesterday, will give the West German company a number of businesses mainly concentrated in motor vehicle coatings and ink production. On a worldwide basis it will make BASF the largest global supplier of printing ink, while in the U.S. it will take over United Technologies' (UT) dominant position in the market.

In the motor vehicle paint and finishing sector, where UT claims to be the second largest U.S. company, the agreement will also eliminate BASF's international position. The West German group already has a leading role in Europe through its "Chemspirit" division, and only three years ago it acquired another U.S. concern, Cook Industrial Coatings, in the same field.

UT refused to say yesterday how much Inmont earned last year, but it confirmed that the division's sales were \$1bn. That compared with BASF's revenues in the U.S. last year of \$2.4bn, about 17 per cent of its consolidated turnover of \$14.2bn (\$M 40.4bn).

BASF's other activities in the U.S. include synthetic fibres and chemicals, magnetic recording products and flavours and fragrances.

Wall Street reacted cautiously to the announcement yesterday on the absence of any indication of where UT chose to spend the cash, which it expects to receive in the third quarter of this year.

Although the price UT is receiving for Inmont appears to be generous, given UT's average net return on sales of \$3.7 per cent in the last few years, there has been considerable uncertainty about the future of the group recently because of the anticipated retirement of its controversial chairman, Mr Harry Gray.

Immediately after the joint statement from the two companies, UT's share price fell 5% to \$39.

Inmont formed the largest sector of UT's industrial division, the fourth largest grouping of companies within the company, which claims that "high technology is the common denominator of all we do."

Continued on Page 22
Monsieul cuts losses, Page 23

Five EEC countries ease frontier curbs

BY PAUL CHEESEBRIGHT IN BRUSSELS

FRANCE, Germany, Belgium, the Netherlands and Luxembourg have agreed significant steps to ease the movement of people and the traffic of goods across their common land frontiers.

Ministers of the five countries were yesterday evening putting the finishing touches to an agreement which provides for:

- Cars and their passengers to cross borders freely if a special sticker is displayed noting that the occupants are complying with normal customs and immigration legislation.
- The abolition of controls on goods traffic, so that trucks can also move freely if they display a sticker similar to that for cars, subject only to spot checks.
- The regrouping of customs posts into one building where now they are situated on both sides of a frontier.

These short-term measures are accompanied by longer-term decisions to step up police co-operation - for example against drugs traffic. The agreement preempts an attempt at a wider EEC level to ease frontier formalities for individuals crossing borders. The measures being taken are in line with those proposed last January by the European Commission.

The decision of the five nations to go ahead on their own is an example of what is becoming known as "the Europe of variable geometry" - in which some EEC members are prepared to move towards integration in certain areas at a faster speed than others.

Maryland asks for federal aid

BY PAUL TAYLOR IN NEW YORK

MARYLAND'S Governor yesterday formally requested assistance from the Federal Home Loan Bank Board (FHLBB) as problems among the state's privately insured savings banks showed signs of spreading.

Mr Edwin Gray, director of the FHLBB, confirmed in congressional testimony yesterday that Gov. Harry Hughes called him early yesterday to ask for assistance. Gov. Hughes specifically asked the federal regulatory agency to help to evaluate Maryland's 102 privately insured savings banks to determine whether they are eligible for federal deposit insurance coverage.

Mr Gray added that "about half a dozen" privately insured Maryland savings banks had already applied for federal insurance coverage under the Federal Savings and Loan Insurance Corporation (FSLIC).

Earlier Gov. Hughes said he had asked for about \$600 Federal bank examiners to come to Maryland in an effort to help troubled banks improve their financial condition in order to qualify for federal insurance. He maintained, however, that the problems were isolated and urged local depositors to remain calm.

The latest moves appear to represent a recognition that it may be necessary to acquire federal insurance in order to restore public confidence in the beleaguered privately insured savings banks. Similar steps proved necessary in Ohio earlier this year in order to contain that state's privately insured savings bank crisis.

Reflecting this sentiment, Sen. Jake Garn, chairman of the banking committee, noted yesterday, "It appears to me that state insurance funds are on the way out."

Among other developments in Maryland:

- A second troubled savings bank, Merritt Commercial Savings and Loan was placed at its own request under the protection of a conservator - a temporary caretaker whose main job is to protect the assets of a financial institution.
- The move follows the appointment of the Maryland Savings Share Insurance Corporation, the local private insurance fund, as conservator for Old Court Savings and Loan, the Baltimore-based institution at the centre of the emerging savings bank crisis.
- State senator Howard Denis, chairman of Maryland's Task Force on Savings Institutions, called for "immediate contingency plans" for a special session of the state's general assembly to address the problems.

In a separate development, Chemical Bank, the New York-based banking group that has agreed to acquire the failed Home State Savings Bank of Cincinnati, warned that it could pull out of the rescue deal unless state legislators increase the level of state financing available to help to fund the acquisition and change other aspects of a planned local banking bill.

Ohio's legislature has tentatively approved legislation which would provide \$91m in state funds to help Chemical acquire Home State. Chemical, however, is insisting that the state provide \$125m in "up-front funding" including a contingency reserve of \$20m which would be refunded if not required.

Chemical is also unhappy with other aspects of the draft legislation, particularly a section which would impose a two-year moratorium on any out-of-state bank acquiring an Ohio commercial banking licence.

State legislators are due to meet this week to thrash out a final version of the Bill.

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EUROPEAN NEWS

Polish politburo's security service chief resigns

BY CHRISTOPHER BOBINSKI IN WARSAW

THE POLISH Communist Party's central committee has accepted the resignation of Mr Miroslaw Milewski, a politburo member and the committee's secretary formerly responsible for the security service.

He has served in the Interior Ministry all his working life and held a senior party post last October at the time of the murder by four security men of Father Jerzy Popieluszko, the pro-Solidarity priest.

His resignation came as the Government confirmed that a man claiming to have been plotting to assassinate Mr Lech Walesa, the Solidarity leader, has been arrested in Gdansk. A trial date has also been fixed for next week for three leading Solidarity figures, and currency proceedings have been instituted against Mr Stefan Bratkowski, a leading dissenting journalist.

Mr Milewski was widely alleged at the time of Fr Popieluszko's murder to have been at the head of a hard-line plot, based among disgruntled policemen, intended to cause unrest and threaten the position of General Wojciech Jaruzelski, the Communist party leader.

The claims were never substantiated, however, and they were vehemently denied by hard-liners themselves who saw the political in-fighting designed to strengthen the position of General Czeslaw Kiszczak, the Interior Minister, and of General Jaruzelski himself. Mr Milewski disappeared from public view a few weeks after the priest's murder and yesterday's resignation merely registers the fact of his political demise.

Meanwhile Mr Jerzy Urban, the government spokesman, yesterday quoted copiously from the testimony of Mr Josef Szczepanski, a 34-year-old mechanic, who says he has been urged by an "underground organisation" to kill Mr Walesa but refused to do so and went to the Solidarity leader with the story. Mr Szczepanski was to have carried out the deed a few days ago while on leave from prison where he is serving an 11 year term for killing a man in a fight.

Mr Urban warned reporters not to take the story too seriously, but the detail he provided suggests a straightforward plot to assassinate the Solidarity leader.

Rare opportunity for Craxi as Italy votes for stability

James Buxton in Rome explains why the weekend election measured more than how the parties stand

THE RESULTS of the Italian regional elections which began pouring in on Monday night had a virtue that it all too rare in Italy: they were reasonably clear cut.

The opposition Communist Party lost support, by whatever yardstick one takes. The share of the vote won by the five ruling coalition rose—surpassing the results of the 1983 elections after which he came to power.

The Christian Democrats showed that they were once again on the way up after two successive years of bad election results, and Sig Craxi's own Socialists advanced in absolute terms.

The result is a blow for Sig Alessandro Natta, the Communist Party leader, who was relying on his party overtaking the Christian Democrats and so putting in a claim to power at the national level. In the event, the gap between the Communists and the Christian Democrats widened to almost 5 per cent, its biggest since 1980.

On the other hand, the position of Sig Craxi, both as Prime Minister and party leader, has been reinforced. Despite being head of a minority party—but one essential to the formation of Government—he can now reasonably expect to remain as

Prime Minister for some time to come. Technically, the elections were for the governments of 15 of Italy's 20 regions, as well as for the councils which run the

A miscalculation by the Communist leader has allowed the Christian Democrats to breathe more easily, but the greatest potential gain is for the Socialist Party.

country's provinces and the more than 8,000 communes, or municipalities, into which Italy is divided. But though local factors played a part and the elections will cause many changes in city administrations, the political parties all regarded them as a test of how they stood, two years after the 1983 general elections.

The Christian Democrats would have been relieved if they had at least maintained the 33 per cent they sank to in the great collapse of 1983, a level they maintained in last year's European elections. The Communists wanted to build on the 34.3 per cent they won in the

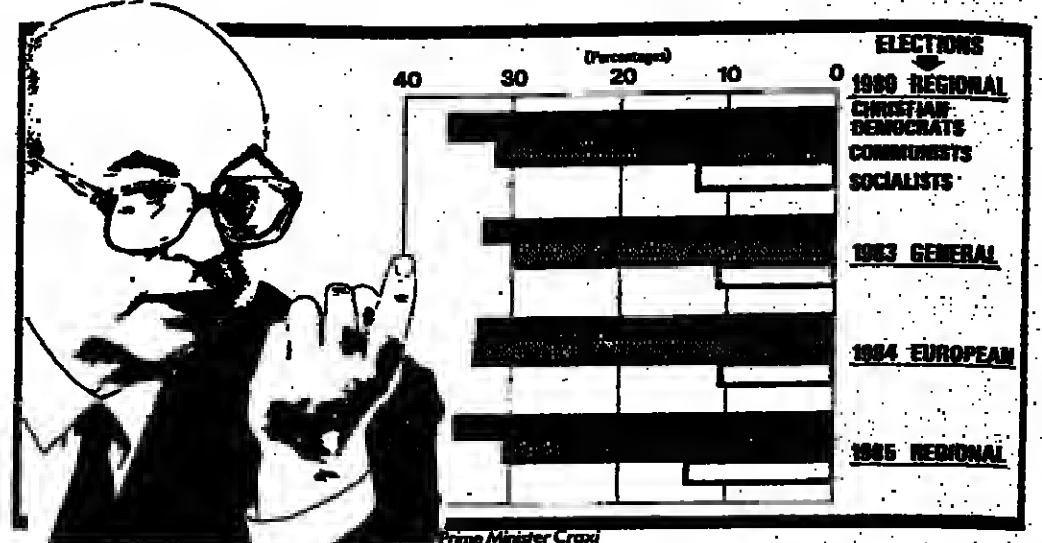
European elections when they passed the Christian Democrats for the first time, by 0.3 per cent.

The Socialists had to advance in comparison with both the last regional and general elections if Sig Craxi's long-term aim of reversing the balance between the two major parties of the Left was to retain any validity.

In the event, it was the 67-year-old Sig Natta who failed to play his part well. He had made life as difficult as possible for Sig Craxi's Government and adopted an uncompromising anti-Government line in the election campaign. Sig Natta made the mistake of speaking openly about what he would do if the party again achieved the sorpasso—the overtaking of the Christian Democrats.

That gave superb ammunition to the Christian Democrats, who were making a concerted effort to win back lost ground by stressing traditional Catholic virtues and drawing on the active support of the church in a way that had not been seen in Italy for years. The spectre of Sr Natta's sorpasso was exactly what was needed to chill their supporters' marrow and to get them out to vote. The voting turnout was high at 88.9 per cent.

Yet nerves were very tight on Monday after the poll closed. Sig Ciriaco de Mita, the Christian Democrat leader, remembering the traumatic experience of the 1983 results coming in, went into hiding in the country, only returning to Rome when he heard that everything was all right. He had been prepared to resign if his party had done badly.



But the Christian Democrats pushed their share up by 2 percentage points to 35.1 per cent, compared with the 1983 and 1984 elections. They still lost seats in regional governments because their result was nearly

2 per cent below that of 1980.

The Communist total of 30.1 per cent is worse than its results in the last three electoral tests (including the 1983 general election in those regions which voted at the weekend). It suggests that the 34.3 per cent the party won in the European elections last year was an exceptional result, heavily affected by the death a few days before of the greatly respected party leader Sig Enrico Berlinguer.

The party will probably lose power in some cities as its Socialist allies abandon coalition with the Communists to join the Christian Democrats. But the Communists can still claim to represent nearly a third of the electorate, and their support is still well above its level in the early 1970s. The question is whether it will fall any further.

The Socialist Party advance to 35.3 per cent was enough to satisfy Sig Craxi that the party is gradually going ahead under his leadership, but it would have been more convincing if it had won a percentage point or two more.

Italians seem to have signalled at the weekend that they want the present five-party coalition of Christian Democrats, Socialists, Republicans, Social Democrats and

Liberals to continue. These parties' share of the vote rose to 58.3 per cent compared with 52.3 per cent in the last general election. The vote was, as Sig Craxi said, for stability.

The stability comes at a moment of great opportunity. For the last six years there have been major elections every year, forcing governments to adapt their policies to winning votes and making serious reforms, particularly of runaway public expenditure, almost impossible.

There are now no major elections scheduled until 1988, assuming it runs its full course, and whoever rules the country for the next three years has a chance to make real changes. (Sig Craxi has already been Prime Minister without interruption for 21 months, the fourth longest since the war, and has often stated his intention to govern for at least three years.)

Before then the Government must weather its next major challenge: the Communist-sponsored referendum on wage indexation set for June 9. Then will come the election by both houses of parliament of the next President of the republic. Only after that will the balance of forces which will decide the course of events in the coming years be fully in place.

Yugoslavia orders price cuts in 18 industries

BY ALEKSANDAR LEBL IN BELGRADE AND DAVID SUCHAN IN LONDON

THE YUGOSLAV Government has decided to try to moderate the country's soaring inflation rate of 60-70 per cent a year, about the highest in Europe, by ordering companies in 18 industries to cut the prices of many of their products to their February level.

The action affects those products whose prices have risen by more than 20 per cent this year and are well above world levels, and involves those manufacturers who are considered to be making above average profits.

A key consideration is the attitude of the International Monetary Fund which last month approved another stand-by credit arrangement of some \$300m for 1985-86. Only last year the IMF had Yugoslavia scrap a price freeze on the ground that it attacked the

symptom rather than the causes of inflation and created long term price distortions. However, it may accept a price rollback as a temporary step.

The federal Yugoslav authorities are also asking:

• Individual companies and their nationwide association, the Economic Chamber of Yugoslavia, to reconsider prices of products in a further 17 industries, which have risen more than 50 per cent but whose manufacturers do not enjoy above average profitability.

• The country's eight republics and provinces to reduce the costs of municipal services, and the level of rents and various public levies.

• All public authorities to reduce by 8 per cent this year the number of their civil servants.

Papandreou refuses TV debate with opposition

BY ANDRIANA IERODIACONOU IN ATHENS

GREECE'S SOCIALIST Prime Minister, Mr Andreas Papandreou, has rejected a challenge by Mr Constantine Mitsotakis, leader of the Conservative New Democracy opposition, for a live television debate on one of the most controversial episodes in recent Greek political history in which both men took part.

This was the downfall of the Centre Union government of Mr George Papandreou in 1965 in a chain of events which led to the installation of the Colonels' dictatorship two years later.

Mr Mitsotakis proposed that the television debate should be held before the June 2 general election, in which the Socialists and the Conservatives are the main competitors.

Mr Papandreou, a minister in

the government of his father George, has made it a key feature of his election campaign to attack Mr Mitsotakis as a "traitor" for having been one of the MPs who abandoned the Centre Union to form a right-wing splinter government in 1965.

The move is believed to have been encouraged by the monarchy, which was abolished only after the collapse of the junta in 1974, and which had clashed bitterly with George Papandreou over control of the armed forces.

A dramatic ingredient of this clash were allegations that Andreas Papandreou led a secret left-wing conspiracy in the army code-named Aspidochelone.

Bossano and Spain duck sovereignty in Rock talks

BY DAVID WHITE IN MADRID

IT IS IMPOSSIBLE to talk with the Spaniards about Gibraltar without talking about sovereignty. This golden rule, which led to a 20-year Anglo-Spanish confrontation over the Rock, and which the British Government had to accept before Spain agreed to accept border restrictions earlier this year, has just been disproved by Mr Joe Bossano, Gibraltar's opposition leader.

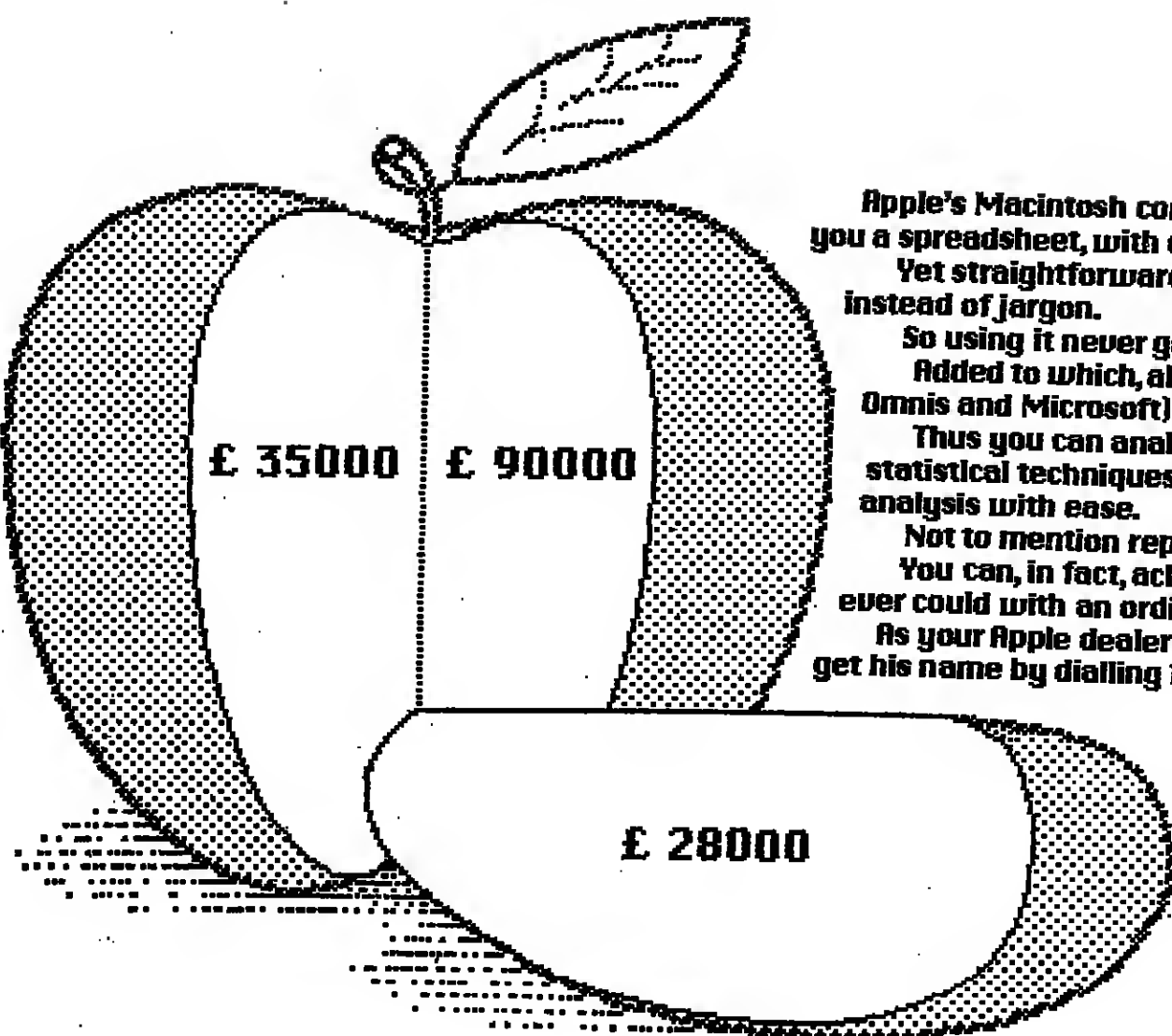
Mr Bossano, who strongly opposes any deal between Britain and Spain which fails to allow Gibraltarians the right to self-determination, said the

issue had been kept off the agenda of his talks here. "It would frankly have been a dialogue of the deaf,"

Leader of the Labour Party and front-runner to succeed Sir Joshua Hassan as Chief Minister, met representatives of Spain's ruling Socialist Party on Monday on his first visit to Spain since the early 1980s.

"We excluded decolonisation," Mr Bossano said before returning to Gibraltar, "and they did not include it."

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British coal dispute

China to boost

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May 15 1985

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EUROPEAN NEWS

Britain on verge of coal subsidies dispute with EEC

By PAUL CHEESERIGHT IN BRUSSELS

THE BRITISH Government is on the verge of a major dispute in the European Community over who should control subsidies paid to the UK's National Coal Board (NCB). This became clear yesterday when Mr Nicholas Moser, the EEC Commissioner for Energy, outlined to the Energy Committee of the European Parliament, the Commission's thinking on how subsidies to the coal industry should be managed from January 1 1986.

Coal is exempted from the normal competition rules of the EEC, which prohibit the use of subsidies. But the exemption runs out at the end of the year.

Although Mr Moser's proposals for what happens next year were vague in the extreme, they were based on the notion that supervision of subsidies would be in the hands of the Commission, as is the case with other industries operating outside the normal competition rules.

But this is precisely what the British Government wants to avoid. It is against centralised control, of course, and it does not want the right to grant subsidies subject to conditions established in Brussels.

The Commission is due this month to approve proposals for the control of subsidies to the coal industry. These would be discussed by energy ministers in June.

Mr Moser said that aid for the industry would have to continue. But "where capacity is not competitive, we must reduce it," he said.

Although Mr Moser would not provide figures yesterday, his officials are believed to be preparing plans which involve an end to all subsidies by the year 2000 and a production cutback of 15 per cent by 1990 over the whole EEC, with the number of jobs reduced from 435,000 to 290,000.

Mr Peter Walker, the UK Energy Secretary, has already announced plans for £2.65bn (\$3.3bn) of subsidies to the NCB for 1985-87, but it will not cover losses beyond that time.

The Government's broad aims are thus in line with those of the Commission. Its argument in the Community, rather, will be about means. Sensitive in the aftermath of the UK miners' strike about pit closures, it will resist any attempt in the Community for any other body than the NCB to decide which pit is viable and which is not.

Le Monde will offer stake to readers

By David Houshe in Paris

LE MONDE, France's leading daily newspaper, is to make a significant departure from its traditions by giving outside shareholders a 25 per cent stake in ownership as a way of raising FFr 35m (£3m) in fresh equity funds.

The move was confirmed yesterday by M Andre Fontaine, the recently appointed editor-in-chief, as part of his efforts to put the newspaper back on a sound financial footing. It will be voted on by the existing shareholders—who comprise the staff and the founding members of the newspaper—at the end of the month.

M Fontaine is proposing that an appeal for fresh capital should initially be directed to readers—many of whom have expressed an interest in subscribing.

Until now, journalists at Le Monde have resisted moves to bring in outside capital as potentially damaging to editorial independence. Under the structure proposed by M Fontaine, the editorial staff will see their holding cut from 40 per cent to 30 per cent, a level which in low is still sufficient to give them a blocking minority.

The capital increase is part of extensive cost-cutting aimed at producing savings of FFr 104m in a full year—equivalent to 20 per cent of the net income. Le Monde obtains from advertisements and sales.

The most controversial part of the plan is a new salary scale for journalists which involves cuts of 22 per cent for some.

Salary adjustments are in the context of an overall 10 per cent cut in the newspaper's salary costs.

Several journalists expressed their dissatisfaction with the new structure and on the way it was decided by M Fontaine and his senior editorial team. They have asked that a decision on it be postponed.

M Fontaine has none the less secured salary cuts from the administrative staff as well as some voluntary departures.

It is also proposed that the newspaper's headquarters in the Rue des Italiens be sold to raise funds.

Swedish strike tightens grip as shares fall

By KEVIN DONE AND DAVID BROWN IN STOCKHOLM

SHARE PRICES continued to fall in Stockholm yesterday as Swedish financial markets tried to come to terms with Monday's dramatic tightening of monetary policy which has given the country virtually the highest interest rates in Europe.

At the same time, there was still no sign of any breakthrough in the civil service strike and lock-out which has halted both domestic and international air traffic in Sweden and badly disrupted trade. The state railways can no longer accept outward bound freight, and the SAS Scandinavian airline warned that its daily losses of SKr 15m (£1.35m) have forced it to prepare redundancy notices for as many as 700 employees.

Some SKr 80m (£720m) has been wiped off the value of the Stockholm stock market in the past two days as share prices have tumbled in the face of the central bank's decision on Monday to raise the discount rate by 2 percentage points to 11.5 per cent and the penalty rate to 16 per cent from 13.5 per cent.

One trader said the market was still "shaky" yesterday as the all-share index fell by a further 1.3 percentage points following the drop of 2.1 points on Monday.

The Swedish krona was still weak on the foreign exchanges as dealers remain unconvinced that Monday's measure would have any impact on Sweden's underlying economic problems.

"People are still hesitant to buy," said one dealer. "The prime rate is now 17.5 per cent in Sweden, people are convinced they should borrow a little

short-term abroad, and that is going at least to delay the outflow. But the election in four months is bad news. The market is going to be unsettled until then."

The nervous foreign exchange markets are still discussing an eventual devaluation, but such speculation was strongly denied by the central bank.

The attention of the markets is now focussed on the next weekly report from the central bank, which will indicate what success its measures have had in halting the flow of capital out of the country.

Swedish banks welcomed the central bank's decision to abolish interest rate controls on bank lending as an important step in the further deregulation of financial markets.

Bank profits will be badly hit

by losses on their large bond holdings, but that can be partly offset by being able to raise lending rates well above the increase in the discount. "That has hardly happened before in modern times," said one banker.

The banks have raised their lending rates by 3.5-4 percentage points to around 18 per cent, and loud protests started coming yesterday from the grass-roots of the trade union movement, who see the chances of any real wage rise this year rapidly evaporating.

Meanwhile, the Swedish national railway announced that it can no longer accept export freight because its entire fleet of 1,800 railway cars has been virtually jammed at the border exits waiting customs clearance. The stoppage will mainly

hit the pulp, paper, lumber and steel industries.

SAS reports losses of SKr 180m (£16m) since the strike—which has involved Sweden's commercial air traffic controllers—began 13 days ago. The airline may be forced to serve redundancy notices as early as this Friday.

LIN, the group's domestic airline, reports monthly losses of SKr 50m, and warns that it could be forced into receivership by mid-summer if the strike is not resolved.

Mr Jan Carlzon, the managing director, said foreign concern over Sweden's mounting labour unrest also led to the loss by SAS last week of a major service contract for Fokker aircraft, and a potential loss of a further 500 jobs.

about \$10m to cover its budgetary deficit this year.

Mr M'Bow is understood to be coming under increasing pressure from several developing countries to adopt a more conciliatory approach to resolve the agency's dire problems.

It remains to be seen if he and the executive board as a whole will accept some limited reforms based on the U.S. General Accounting Office's report. Among proposals inspired by the GAO inquiry are a tightening of programmes. The GAO report said nearly 30 per cent of Unesco's programmes. The GAO report said nearly 30 per cent of Unesco's programmes were duplicating other work.

The British government is due to review its policy on Unesco after the general conference in October. Mr Dodd said Britain remained committed to the UN and to multilateral co-operation but wanted to see Unesco work "as an effective forum for international intellectual co-operation, particularly as an instrument for providing help to the Third World."

A number of other major countries have warned that they will reconsider their position in Unesco unless reforms are undertaken. Among them are West Germany, Japan and the Netherlands.



Mr M'Bow: under pressure

normally cover additional inflationary costs in a given budgetary period to help offset the shortfall in this year's budget. But Britain, Canada and even the Soviet Union oppose this move, while France yesterday suggested it would favour the director general's proposal.

Despite receiving about \$8m in voluntary contributions and making a number of budgetary cuts, the agency is still seeking

France acts to bring down mortgage rates

By Paul Betts in Paris

THE FRENCH monetary authorities yesterday announced changes in the domestic mortgage market in an attempt to bring mortgage rates down and stimulate activity in the depressed building industry.

The action coincides with a general decline in French interest rates, following an one-eighth point decline in the Bank of France's intervention rate to 10.125 per cent and a quarter per cent drop in Credit Agricole's base lending rate.

The other main banks are expected to follow Agricole's lead in the next few days. M Pierre Berezgoy, the finance and economy minister, has been arguing for a further gradual easing in domestic rates to encourage investment and economic activity.

Reform of the mortgage market will involve setting up a financial agency, similar in some respects to the U.S. Federal National Mortgage Association to issue long term bonds to finance mortgages.

Paris officials said the mortgage market suffered from having to rely on short term money. The new system, funded by longer term money, is expected to reduce current average mortgage rates of 16-16.5 per cent by 0.5-2 per cent.

The Government hopes this will help the private building sector recover from its extended slump.

CRUCIAL UNESCO BOARD SESSION OPENS WITH BRITISH BROADSIDE UK makes public attack on M' Bow

By PAUL BETTS IN PARIS

BRITAIN HAS become the first country to criticise in public Mr Amadou Mahtar M'Bow, the controversial director general of the United Nations Educational, Scientific and Cultural Organisation (Unesco), which is in the throes of a profound institutional and financial crisis.

Mr William Dodd, the UK representative on Unesco's executive board, criticised Mr M'Bow's frequent foreign visits in a speech during the current crucial session of the board.

"I am very conscious of the large amount of foreign travel which he has felt it necessary to undertake," he said. "None-theless, in view of current circumstances, I wonder whether he will find it possible to spend rather more time here in Paris in future in order to co-ordinate and lead the Secretariat (which he has rightly explained is under severe pressure) in the many difficult tasks before it."

Mr M'Bow has made about 20 visits abroad between October and the end of March.

It is the first time that Mr M'Bow, who is Senegalese and who has been blamed for much of Unesco's troubles, has been directly called into question at an open board meeting.

Up to now, even the countries most critical of his management and leadership have been at

China and E. Europe to boost trade links

By LESLIE COLT IN EAST BERLIN

CHINA and Eastern Europe are busily rediscovering each other, after years of separation dictated by the split between Moscow and Peking.

Two Chinese Government ministers—for telecommunications and culture—have just visited East Germany, while an East German "friendship" delegation toured China.

A Chinese Vice-Premier responsible for foreign trade is to visit Warsaw this month and trade between the five small East European countries and Peking is set to recover to the level of the early 1980s in a few years.

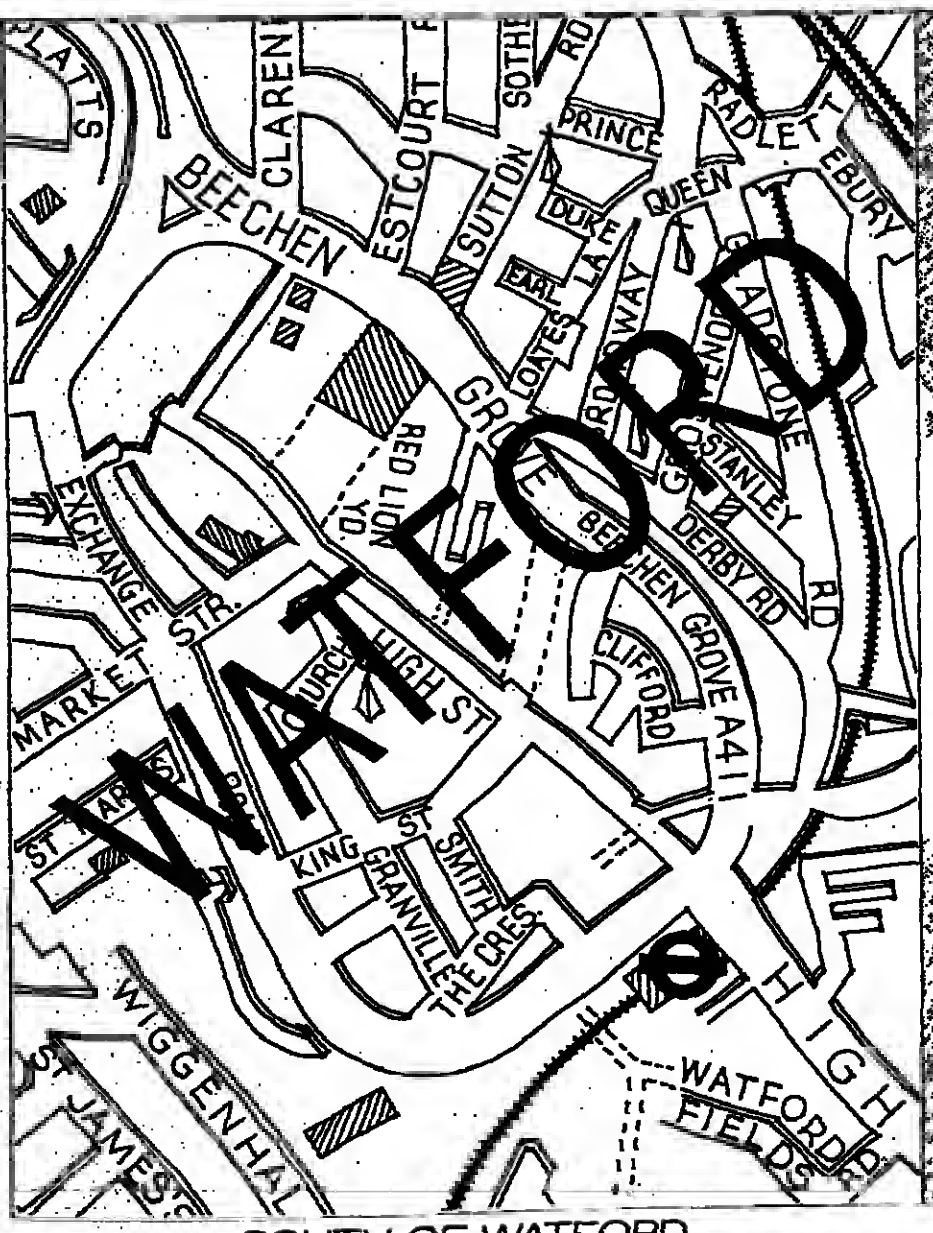
China's trade with Hungary this year is to rise to SwFr 650m (\$251m) from SwFr 270m last year. Poland's trade with China is to expand 180 per cent this year to SwFr 1.4bn and Polish companies are to modernise sugar refineries and food-processing plants supplied in the 1950s.

Nearly 20,000 Polish cars and 6,100 trucks are to be shipped to China this year, the largest export order ever received from outside Comecon.

Czechoslovakia is developing its trade with China by 30 per cent to SwFr 1.5bn after trade quadrupled last year. Skoda and Tatra trucks are being exported to China, along with a truck assembly line. Peking also needs Prague's help to modernise plants built by Czechoslovak companies 30 years ago.

Romania, which never broke off its party-to-party ties with China, still has the largest trade with Peking of any East European country—more than SwFr 2bn last year.

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OVERSEAS NEWS

Philippine debt rescue hangs in the balance

BY SAMUEL SENOREN IN MANILA AND PETER MONTAGNON IN LONDON

HOPES THAT the Philippines will be able to sign a \$10bn debt rescue package with commercial bank creditors on schedule next week hang in the balance last night following the Government's failure publicly to endorse a rehabilitation plan for the country's only distributor of fertiliser products.

A meeting of creditors of the troubled fertiliser concern, Planters Products, was adjourned until Friday to allow more time for work on the rehabilitation plan that would include a firm commitment by the Government to provide fresh equity as well as guarantees on subsidy payments.

Planters owes foreign banks about \$83m (\$66m) and has fallen behind with interest payments to such an extent that some, including Lloyds of the UK, Societe Generale and Credit Lyonnais of France as well as Rainier National of the U.S., have threatened to withdraw from the rescheduling unless the problems are dealt with.

Mr Cesar Virata, Prime Minister and Minister of Finance, said recently that the Planters Products issue should not hold up the signing of the

rescheduling, but expectations of a delay were spreading through the banking community yesterday after the creditors' meeting failed to produce any firm conclusion.

Mr Jose Laurieta, a lawyer for the fertiliser company, said in Manila yesterday that the Government had promised to pay over six months the company's claims of 335m pesos (\$14.5m) in subsidies as well as capital injections of 200m pesos over the next two-and-a-half years.

But Philippine government sources denied that any such commitment had been made. One problem lies in squaring these extra payments with the budgetary restrictions imposed on the Philippines under its current IMF programme.

Manufacturers Hanover, which has been spearheading negotiations with the Philippines, declined to comment yesterday on the possibility of a delay in signing the rescheduling.

The Philippines badly needs this agreement which will allow it to eliminate debt service arrears as well as provide access to \$3bn in vital trade finance.

S. African call for work stoppage has little effect

BY JIM JONES IN JOHANNESBURG

UNION CALLS for work stoppages to mark the funeral of Mr Andries Ratselisela had little effect in South Africa yesterday, employers say. Mr Ratselisela, a union official who died of a brain haemorrhage on Monday last week after being questioned by police, was buried quietly yesterday at the black township of Tsakane near the East Rand industrial town of Brakpan.

In Tsakane, about 5,000 mourners attended the funeral. Police and soldiers patrolled the township in armoured vehicles but avoided confrontation with the mourners.

Last week Ratselisela, the Federation of South African Trade Unions of which 29-year-old Mr Ratselisela was an official, called on workers to observe a two-hour work stoppage if they were

unable to attend yesterday's funeral.

Employers and employer organisations were generally conciliatory. But while they reasons for the work stoppage, they generally agreed that workers would not be paid for any time not worked. Yesterday several employers in and around Johannesburg reported that stoppages had taken place around noon but that as they had largely coincided with normal mid-day lunch breaks work had not been greatly disrupted.

Three explosions damaged police living quarters and court offices in Brakpan in the early hours of yesterday morning. Police reports say that damage was not serious.

Tamil rebel gunmen kill 86 in holy city

EIGHTY-SIX civilians were killed yesterday when Tamil guerrillas took their separatist campaign into the sacred city of Anuradhapura and the Sri Lankan cabinet held an emergency session on the country's latest crisis, Reuters reports from Colombo.

It was the first major assault by the guerrillas, who are fighting for a separate Tamil state, into a predominantly Sinhalese area.

Five Buddhist nuns, 25 other women and six children were among those who died when a guerrilla band disguised as soldiers sprayed gunfire into crowded streets and then went on a shooting spree through the surrounding countryside.

Officials said the death toll in the shootings, the bloodiest attack of the separatist campaign, rose from the earlier figure of 75 to 86 with the discovery of eight more bodies in a national park where the rebels had gone into hiding.

The officials said President J. R. Jayewardene summoned a crisis meeting of senior cabinet ministers to discuss the killings and three opposition parties in parliament called for an emergency meeting of the legislature to discuss the issue.

Anuradhapura, 125 miles north of Colombo, was declared a sacred Buddhist city 20 years ago and has a population of 28,000, most of them Sinhalese.

Mervyn de Silva adds: A special envoy of President Jayewardene is in New Delhi this week for talks with Prime Minister Rajiv Gandhi aimed at defusing Indo-Sri Lankan tensions and discussing how India could help Sri Lanka to contain the growing Tamil separatist revolt in the island's north. The special envoy, Mr Edmund Wickremasinghe, will attend the South Asian Foreign Ministers meeting which opened in Thimphu, Bhutan, yesterday.

Mr Jayewardene's move follows appeals made to him at the weekend by Buddhist President V. V. G. of Bhutan and Mr Gandhi himself to reconsider Sri Lanka's decision to "boycott" the Bhutan conference.

Alain Cass in Ahmadabad describes the sectarian violence affecting Gujarat Rich Indian state gripped by bitter caste war

IF MAHATMA GANDHI were alive today, he could stand on the porch of his house on the Sabarmati River and watch thin plumes of smoke rising above the ancient capital of his native state.

Gandhi's ashram stands opposite the walled city of Ahmadabad, where heavily armed troops patrol the near-deserted streets amid the charred ruins of homes, shops and offices—the results of two months of communal violence.

It was from here that Gandhi launched some of his most spectacular campaigns against the British Raj and the scourge of caste and communal hatred. The failure of those and later campaigns to eradicate India's most intractable problem is as evident here as anywhere else in the country.

In the maze of narrow back streets young army officers lead their units in hazardous sorties against mobs who suddenly appear, hurl bricks and petrol bombs and vanish. In the new city, rioters set cars ablaze or loot shops belonging to members of a caste or a community against whom they have a grievance, real or imagined.

In the past few days over 100 stabbings have taken place and mutilated bodies found in the gutters. A Muslim funeral procession marches silently, escorted by an army truck, with

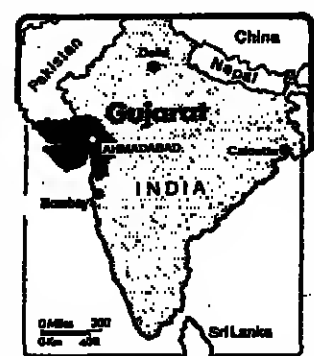
a heavy machine gun mounted on the cab.

In the past two months at least 90 people and perhaps as many as 300 have died in the violence throughout the state of Gujarat. The offices of the state's largest circulation daily, the campaigning Gujarat Samachar, were gutted by fire last month on a day when the mobs, sometimes led by police out of uniform, went on a seven-hour rampage after a policeman was backed to death in broad daylight.

The situation is not as bad as in 1968 when as many as 2,500 people died in sectarian violence, but it is bad enough to have Mr Rajiv Gandhi, India's new Prime Minister, hurrying down from New Delhi to see for himself.

By the time the Indian army was asked to take over responsibility for restoring law and order from a discredited police force at dawn last Sunday, everywhere seemed to be fighting everybody else.

Hindus were fighting Muslims, upper castes were fighting lower castes, students were pitted against the state Government, old scores were being settled, and the police, widely accused of taking sides against sections of the population—a charge privately supported by army officers—was defeated and demoralised force. Schools are closed and government offices are at a standstill.



The city is thick with rumours that "foreign hands"—the usual euphemism for Pakistan—are encouraging the city's Muslims to take advantage of the chaos.

The spark which ignited the trouble has been virtually forgotten and seems irrelevant now. It began when Mr Madhavsinh Solanki, Gujarat's Chief Minister, announced shortly before the state assembly elections in March that the number of government jobs and college places automatically available to lower castes and backward minorities would be increased from 31 per cent to 49 per cent.

India's constitution provides for positive discrimination in favour of the country's lower castes and the Harijans, or untouchables. This provision has caused resentment among

India's upper castes, who have watched their inherited privileges being steadily eroded. Gujarat's upper caste—the Brahmins and Patels, a once powerful landed community—has been overtaken by the rising Kshatriya caste, mostly small farmers and businessmen.

In 1980, Mr Solanki's ruling Congress (I) Party swept to power with a huge majority with the backing of Gujarat's lower castes. The Patels and Brahmins found themselves increasingly excluded from positions of power.

"Our Government," says Mr Solanki from a small room in its heavily-guarded colonial headquarters "is a common man's Government. We aim to eradicate the widening gap between rich and poor."

Although Gujarat is a major textile centre and one of India's richest states, Mr Solanki claims that 70 per cent of the state's 30m population belongs to the so-called scheduled castes and tribes, whose lot he wants to improve. The opposition claims all he wants is their votes.

Mr Chimanbhai Patel, leader of the opposition BJP Party, claims Mr Solanki is indulging in "the cynical game of backwardness. This Government has merely fuelled the caste war," he charges.

The proof that Mr Solanki's move to increase the quota was

little more than a pre-election gambit to win votes, his opponents say, is the fact that the state's backward castes have not been able to fill the previous quota of 41 per cent.

"So why increase it? asked one community leader. "The Government saw the increase as a vote bank which could go on expanding," Mr Solanki reports that it is the opposition, in the face of a crushing defeat, which is stirring up trouble to force him out of office.

Since the outbreak of violence in Gujarat Mr Gandhi's Government has asked India's 22 states to suspend caste reservation quotas pending a national review. Mr Solanki has said he is willing to postpone a final decision, but the violence has now taken on a momentum of its own.

Mr Solanki may have overplayed his hand. He has played his hand flush with the success by a landslide victory and in the belief that Mr Gandhi would stand by him indefinitely. For the time being, there is no question of the Chief Minister's resignation; he seems prepared to ride out the storm.

If the violence continues his future may be in doubt. But whatever happens to Mr Solanki, the present troubles have probably set back the cause of communal harmony in Gujarat by years.

No date set for postponed U.S. N-ship visit to China

BY ROBERT THOMSON IN PEKING

A "NUMBER of issues" have to be resolved before U.S. warships will visit China, a Chinese Foreign Ministry spokesman said today, following the announcement that a proposed visit to Shanghai had been postponed indefinitely.

The visit of three U.S. warships had been pencilled in for next Saturday, May 18, until a wrangle arose over whether the ships would carry nuclear arms.

At the Chinese end, no one is willing to indicate when a new date will be set for the visit, intended as a symbol of the improvement in the two countries' military relations.

The dispute is over the Chinese desire for assurances that visiting warships will carry only conventional arms. The issue that prompted the falling out between the U.S. and New Zealand earlier this year.

Problems arose for the "courtesy" visit—which would have been the first U.S. port call to China since the 1949 revolution—when Hu Yaobang, the Communist Party general secretary, said last month that the U.S. had agreed that visiting ships would not carry nuclear weapons.

U.S. officials immediately denied that any explicit assurance had been given, saying that there had been no change in the policy of refusing to confirm or deny whether visiting vessels carry nuclear arms.

It had been hoped that the call would symbolise the budding military relationship between the two powers; a relationship which has reportedly included the U.S. agreeing to sell anti-submarine and anti-tank weapons, and destroyer modernising equipment.

Singapore ends school policy

By Chris Sherwell in Singapore

THE SINGAPORE Government yesterday confirmed it would scrap a controversial education policy favouring children of graduate mothers. The policy, introduced in January last year, contributed to the setback suffered by the ruling People's Action Party (PAP) in last December's election.

Speaking in parliament yesterday, Dr Tony Tan, the Education Minister, announced new guidelines for school registration, similar to the previous ones. He called the guidelines the "fairest possible," and the change was applauded by MPs.

The scheme gave graduate mothers priority in registering their children at top primary schools. The aim was to encourage them to have more children, on the assumption that this would better replenish the island state's "talent pool."

Labour Party buoyed by Israeli union election gains

BY DAVID LENNON IN TEL AVIV

ISRAEL'S Labour Party has emerged considerably strengthened from a trade union election which also saw support for the right-wing Likud bloc declining by 5 per cent. This will encourage elements within the Labour Party who favour dissolving the coalition of the two parties in the National Unity Government and holding new general elections.

Monday's poll saw Labour increase its percentage of seats in the central committee of the Histadrut trade union federation by 5 per cent, to 66.7 per cent. The Likud share of the seats fell from 28 per cent to just over 21 per cent.

Mr Shimon Peres, the Labour Party Prime Minister, was cautious "not to sound over-

optimistic after the election, but in private Labour officials were clearly buoyed by the good showing of the party.

The Likud blamed its poor performance on the fact that it has agreed to play a secondary role in the National Unity Government. Likud politicians said they will adopt a more aggressive line in Government so as to win back the supporters.

The country is now braced for a barrage of tough new economic measures which have been held back for the Histadrut elections. Mr Peres threatened yesterday that he would resign if the Knesset did not pass quickly a series of new taxes and other measures which have been blocked in committee.

AMERICAN NEWS

Managua pledges to maintain U.S. debt payments

BY TIM COONE IN MANAGUA

THE CURRENT tour by Sr Daniel Ortega, Nicaragua's President, to Western Europe is not bringing the hoped-for levels of economic support, although in political terms "it has been a great success," according to the Nicaraguan Vice-President, Dr Sergio Ramirez.

Sr Ortega arrived in Rome yesterday and will travel to Sweden today.

Dr Ramirez told the foreign press in Managua yesterday that in economic terms the tour has made "positive advances" and obtained "good responses" to Nicaragua's

need for raw materials and preferential trading agreements. However, he added, "the results are such that our economic problems will not be resolved in one trip."

The recent U.S. trade embargo will not be used, however, as an opportunity to renegotiate Nicaragua's debts with the U.S. "On the contrary, we intend to comply with our international obligations," he said.

"Our U.S. creditors and suppliers can be sure that we will pay up to the last cent for the goods we have received."

Dr Ramirez said that recent commitments made to 60 U.S. banks over the restructuring of Nicaragua's foreign debt would also be maintained. The U.S. business community did not support the trade embargo, he said.

The Vice-President said Nicaragua had taken precautionary measures to minimise the impact of further possible U.S. sanctions. Future sanctions could include the seizure of Nicaragua's assets in the U.S. or the inclusion of U.S. overseas subsidiaries within the terms of the embargo, and the prohibition of

the use of the U.S. dollar by Nicaragua in international transactions.

The rescinding of the 1957 friendship treaty between the two countries by the U.S. on May 1 removes the protection against expropriation guaranteed to the 45 U.S. companies which manufacture or trade in Nicaragua. However, Dr Ramirez said, "We do not intend to make reprisals."

Dr Ramirez said "Nicaragua was in excellent condition." The recent proposal to Honduras over the pacification

of their joint border zone included the possibility of combining military action against the U.S.-backed counter-revolutionaries, or, contra-

More than 4,000 Contras were now concentrated in several bases just inside Honduran territory, and the Nicaraguan deputy foreign minister had recently discussed with his Honduran counterparts their concerns over the presence of the

Our San Jose correspondent said the first U.S. troops have arrived in neutral Costa Rica to help improve the border guard force.

Although civil guards have been trained at U.S. military schools in Panama and Honduras, this is the first time U.S. troops will be present in Costa Rica. From this month some 20 U.S. officers will train 750 guardsmen at a camp near the Nicaraguan border.

Costa Rican President Sr Luis Alberto Monge admitted last week the country had no proof of an imminent Nicaraguan invasion but said the country could not defend itself with "machetes and flintlock rifles."

U.S. moves to dispel European fears on secret SDI research

THE REAGAN Administration sought yesterday to dispel fears in Western Europe that the allies would be barred from working on the most sensitive parts of its Star Wars research, AP reports from Brussels.

The U.S. mission to the North Atlantic Treaty Organisation (Nato) issued a statement declaring that the allies would be allowed to work on the secret as well as the non-secret portions of the project, known as the Strategic Defence Initiative (SDI).

This was in response to published reports that Gen James A. Abrahamson, the head of the SDI programme, had told a Belgian newspaper the allies would be excluded from the secret research.

In March the Pentagon formally invited the Nato allies and other friendly nations to join the \$26bn (\$21.7bn) SDI research programme. So far only Britain has said it will participate, while most of the others have expressed varying degrees of interest. Among the ruled out participation.

The U.S. mission to Nato said Gen Abrahamson's office had instructed it to state that "allied nations, if they so decide, will be able to participate in both classified and unclassified research under the SDI."

Nancy Dunne in Washington wrote: "European senators have asked President Reagan to adhere to Salt II ceilings for multiple-warhead missiles, adding their voices to a growing debate within the Administration over whether to continue the U.S. USSR informal strategic arms pact."

In a letter to the President, the senators—Republicans John Chafee and John Heinz and Democrats Dale Bumpers and Patrick Leahy—said that for U.S. to negotiate the arms talks in Geneva, seriously damage important U.S. foreign policy interests "and end superpower restraint on deployment."

While noting U.S. "legitimate concerns" about Soviet compliance with the pact, the senators said: "There is no question that the Soviets have remained within the (multiple entry vehicle) ceilings of Salt II and other international limits. This is especially important because the Soviets are just below the 820 limit on Manned intercontinental ballistic missiles, having 818."

Chris Sherwell, recently in Manila, reports on changes in the Philippines which are worrying Washington Political disorder threatens U.S. Pacific strategy

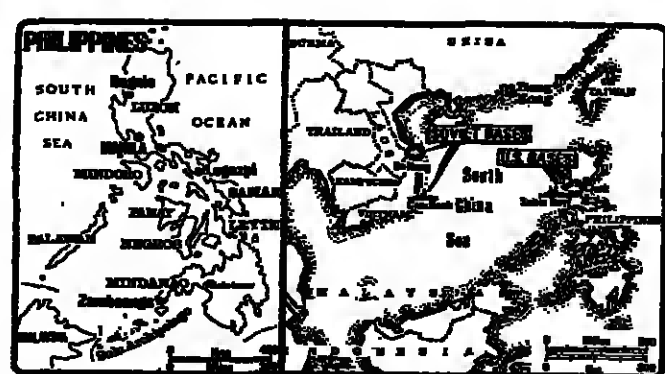
AS AMERICANS ponder increased U.S. involvement in Nicaragua and reflect on their defeat in Vietnam 10 years ago, fresh dilemmas are being posed in a third country involving vital U.S. interests—the Philippines.

President Ferdinand Marcos, a loyal friend to Washington, who has ruled this former U.S. colony for 20 years, is at 67 in erratic health and without an obvious successor. The economy is weak, and the military's alleged involvement in the assassination of opposition leader Benigno Aquino has exposed him to attack. A communist-inspired insurgency is meanwhile spreading relentlessly.

In Washington's eyes, a slow descent into disorder can only be reversed through fundamental economic and political reforms. But the question remains of how far the Reagan Administration should go—or can go—in encouraging such changes, given the Philippines' overwhelming strategic importance.

The U.S.'s two largest military facilities outside America—Clark air base and Subic Bay naval base—are in the Philippines. From here the U.S. has access to the Western Pacific and the Indian Ocean, and control of the sea lanes linking Japan to the Gulf.

To Washington, this strategic position has looked increasingly important ever since the Soviet Union, following the U.S.'s Cuban blockade 23 years ago, began building up its global naval power. But it has become critical since Moscow's



major success in 1979 in securing access to the former U.S. naval base at Cam Ranh Bay and to Da Nang air base in Southern Vietnam.

Because the U.S. has no wish to jeopardise its own position, its latitude in influencing President Marcos is limited, as the wily leader knows. Washington already admits to serious concern both over opposition calls for a removal of the bases and over the growing strength of the guerrilla insurgents, and has even begun considering alternative bases, should revolution suddenly overtake the Philippines.

For the moment opposition demands are blunted by disunity over the bases issue and over their more general strategy for removing Mr Marcos. As long as they are unable to form a solid or credible alternative government, they appear to pose no threat. But the loss of a non-violent alternative would itself be risky, which is why the U.S. Administration stays

closely in touch with opposition figures as well as the Marcos government.

The insurgency is a different matter. The New People's Army, the military wing of the Communist Party of the Philippines, is estimated to have between 10,000 and 12,000 armed members and, according to U.S. Defence Department figures, perhaps as many as 15,000. The Communist Party itself is said to have 60,000 members.

The public manifestation of these underground forces is the National Democratic Front, an alliance of left-wing opposition groups which is widely believed to be under the ultimate control of the Communist Party. It is said to have 100,000 members.

The greatest penetration is in Mindanao, the country's largest island, in the south. But the NPA is also active in Luzon, Samar, Leyte and Negros. Incidents last year occurred at the rate of 10 a day, the bulk

of them initiated by the NPA, resulting in some 3,000 deaths, divided roughly equally between soldiers, guerrillas and civilians. The Government says the trend is being reversed this year and the military has opened the initiative in armed encounters.

So bold has the Left become, however, that last month the National Democratic Front held a press conference in Mindanao to announce that the NPA would be carrying its attacks to Manila by next year. This is a threat Mr Juan Ponce Enrile, the Defence Minister, says he takes seriously; already he allows the possibility that hit-and-run attacks are being mounted from outside the capital.

Mr Enrile also insists that the insurgency remains indigenous, and diplomats agree there is no evidence of material assistance from other Communist countries. But this has not stopped policy-makers in Washington from anticipating the worst and talking about possible alternative bases.

No alternative yet hinted at, however, would be as suitable as the Philippines. Under its 1983 bases agreement with the Marcos Government, the U.S. is paying a total of \$900m over five years, \$300m for purchases of military equipment, \$125 for military assistance and \$475m for economic support.

Before money even started flowing, however, Congress altered the mix of the Reagan Administration's first payment, docking \$45m from the \$85m in military aid and adding it to \$65m of economic assistance. For fiscal year 1986, the House

of Representatives foreign affairs committee is recommending a repeat of this move, cutting U.S.\$75m off military aid and adding U.S.\$60m to economic assistance.

Mr Stephen Solarz, head of the House Asia-Pacific subcommittee which first proposed the change, said the move would send a message to President Marcos that he should not expect the U.S. to support the Philippines Government, which feels a rent agreement has been broken.

If the move also irritated the Reagan Administration, it was at least in line with the thinking behind U.S. policy. An inter-agency study prepared in Washington last November and leaked in March makes it quite clear that the erosion of support in the Philippines for the U.S. bases can only be stopped through a resuscitation of democratic institutions.

That means, as far as possible, making any financial or other assistance conditional on changes which, in practice, weaken Mr Marcos's personal rule. Ideally, these changes would limit his decree-making power, reform the institutions and laws regulating elections, expand press freedoms, reform the army, and end central control of strategic sectors of the economy like grains, sugar, coconuts and fertiliser.

They would also mean a proper trial of the 25 soldiers and one civilian accused of conspiring to kill Mr Aquino.

Beyond this, the U.S. is enlisting the support of foreign governments, especially the donors, to press for economic

reforms, and is helping the International Monetary Fund, World Bank and Asian Development Bank stand by the conditions they attach to their loans, and desperately needed loans.

Meanwhile scarcely a month goes by without visits to the Philippines from U.S. officials. Mr William P. Soler, Mr Wolfowitz and Mr Richard Armitage, Assistant Secretary of Defence, for example, Given that the Philippines occupies a special place in American hearts and that a Filipino constituency is becoming increasingly identifiable at home, the Reagan Administration is plainly anxious about the course of events in the country and its capacity to influence them without leaving itself vulnerable.

Eighteen months ago, in the aftermath of Mr Aquino's assassination when protesters thronged Manila's streets, it was tempting to liken Mr Marcos's position to that of the Shah of Iran before he was ousted. When he fell ill last year and the power of his wife Imelda seemed in the ascendant, he was likened to Chairman Mao in his last days.

Nowadays the reference is to Nicaragua, where widening support for a leftist movement against an insensitive autocrat brought in a popular regime which subsequently lost its moderates. Just as Nicaragua now worries the U.S., so, on this parallel, will the Philippines. The unanswered question is how Mr Marcos will respond to the mounting pressures around him.

Aramco signs \$160m Saudi pipeline deal

By Finn Barre in Riyadh

THE Arabian-American Oil Company (Aramco) has signed two contracts worth almost \$160m (888m) each to build a crude oil pipeline across Saudi Arabia.

The new 1,501-km pipeline will raise the present capacity of Saudi Arabia's east-west pipeline from 1.85m barrels per day (bd) to 4m bd.

The 58-km eastern portion of the pipeline contract from Abqaiq to Dammam has been awarded to Mannesmann Anlagenbau of Düsseldorf and the 1,443-km western portion to the Saudi National Petroleum Company, Consolidated Contractors International Company (CCC). The western portion of the contract has gone to Saimem of Italy.

The pipeline contract was originally broken into four parts but was awarded as two when Aramco signed the deals on April 30. The signing was not announced until this week. The 58-km pipeline will use the present pumping stations on the east-west pipeline but eventually pumping stations

will be upgraded to raise line capacity.

The new line will roughly run parallel to the present 48-in line. Industry officials say that with the construction of a new line Saudi Arabia will be almost independent of shipping in the Gulf.

Some officials add that the new line is being built because corrosion problems on the present line may force closure within a couple of years for major repairs.

Construction will begin in June, and is expected to finish by March 30 1987, a total of 3,000 workers to be employed.

The Government has exempted the contract from its usual 30 per cent rule, which requires foreign and joint-venture contractors to award 30 per cent of their contracts to 100 per cent Saudi companies.

Suppliers for the pipeline include National Pipeline Company, a Saudi-Japanese joint venture, Siderexport of Italy, and Nippon Kokan and Sumitomo Metal Industries of Japan.

Hi-tech go-ahead 'might have saved Russia \$13bn'

By David Buchanan

THE SOVIET Union might have saved itself up to \$13bn (£10.8bn) in weapons development costs if the U.S. Government had approved some 79 export licences requested in 1983-84 for electronic high-technology sales to Moscow.

This assessment comes in a study released this week by the U.S. Defence Department and is designed to bolster its case for tougher U.S. and allied export controls.

The study, conducted for the Defence Department by a private Maryland research firm, is the first Western attempt to assess the financial impact of the technology drain to the East.

Tighter allied export curbs were agreed last year in the Coordinating Committee (CoCom)—the Paris-based group which supervises high-technology exports to the Eastern bloc—but Congress has yet to finalise its version of U.S. national export control legislation.

The report studied the 79 most sensitive licensing requests of the 2,000 handled by the Defence Department in 1983-84.

These concerned telecommunications, micro-electronics, computers and anti-submarine warfare technology.

The sale of this equipment and "know-how" could have provided a major increase in Soviet military potential in the

1990s and beyond, and might have saved Moscow between \$6.6bn and \$13.3bn in development costs over the life span of the weapons involved.

The 15 CoCom member countries—most Nato countries plus Japan—might have had to spend a slightly larger amount, ranging from \$7.3bn to \$14.6bn, to compensate for these Soviet gains, the study claimed.

Such quantitative assessment, however, is based on a number of risky assumptions that for instance, the Soviet Union would use Western technology in precisely the way that the West does and that Soviet and U.S. defence costs are comparable.

But the likelihood that there are very real Soviet military gains from Western technology, though on a much smaller scale than suggested by the U.S. Defence Department, was recently underscored by the leaking to the French Press of apparently genuine Soviet documents obtained by French intelligence in 1983 when some 47 Soviet officials were expelled for alleged spying.

This assessment by the Soviet military industries commission, the VPK, put the value to Soviet acquisition of Western technology at roughly \$1.6bn (£1.4bn) in 1979 and at roughly \$1.8bn (£1.5bn) in 1978.

Foreign car makers win back lost ground in Italy

By James Buxton in Rome

FOREIGN car manufacturers have this year been winning back ground which they lost in the Italian market since 1983.

Their share of the market, for the four months to April, was 33.2 per cent, compared with 35.6 per cent over the same period of 1984.

Renault, the leading foreign car manufacturer on the Italian market, won 10.48 per cent, compared with 9.48 per cent in the first four months of last year.

Volkswagen won 6 per cent of the market in the first four months this year, compared with around 4 per cent in the same period of 1984.

Among the Italian producers Fiat and Alfa Romeo both fell back. Fiat dropped from 46.55 per cent in the first four

months of 1984 to 43.85 per cent in the first four months of 1985.

Alfa Romeo went down from 7.76 per cent in 1984 to 6.79 per cent in the same period of this year. Lancia/Autolander, part of the Fiat group, rose marginally from 8.5 per cent to 8.95 per cent.

The introduction of the Fiat Uno by Fiat and of new Alfa Romeo models in 1983 and 1984 enabled Italian car makers to push their share of the Italian market up by about four percentage points in those years, compared with their performance in 1982.

But now the foreign manufacturers are fighting back, notably Renault with its new Renault 5 which is extremely competitively priced in Italy.

Europe's diesel car sales 'could reach 2m a year'

By John Griffiths

ANNUAL DIESEL car sales in Western Europe could reach 2m, or 20 per cent of the total new car market, before the end of the decade, according to a report from Automotive Industry Data (AID).

Sales leaped last year by 30.8 per cent to reach 1.36m, according to the statistical group's latest newsletter.

It adds that the 7.2m diesel cars on the region's roads and the expected continued fast growth are "creating a mighty market potential for the after-sales market participant, with particular emphasis on fuel injection systems, service and parts supply."

"The point is clearly underlined in respect of the availability of fuel injection pumps, for supply is reaching dangerously low levels and demand is threatening to exceed supply for the right equipment."

AID says that even the oil companies have been caught unprepared for the upsurge in diesel sales, particularly in the UK and Switzerland.

This leaves "the fuel supply network with a lot of catching up to do in order to guarantee

easy and convenient availability of diesel fuel."

Diesel car penetration of the West European market reached 13.77 per cent last year, representing 561 per cent growth from the 2.61 per cent penetration of 10 years earlier, AID points out. The group says that a brief setback in 1983, when sales and penetration fell, was mainly the result of the relative cheapness of petrol at that time. Last year's resurgence, it adds, had confounded views that "the diesel bubble had burst."

AID says diesels have changed "the entire outlook on the European automotive scene," and that manufacturers who had been slow to follow the trend are taking rapid remedial steps.

As a result, there would be "a flurry" of new models into the market this year — AID identifies 30 to be launched before 1986 — which would be certain to expand sales further at the expense of petrol-powered cars.

Automotive Industry Data newsletter 8308, 34 St John Street, Lichfield, Staffs WS13 6PB.

New export insurance scheme

By Our Trade Staff

A scheme for managing export insurance for smaller companies was launched in London yesterday.

Unicel Group Holdings, a credit management and debt collecting company, is offering to take over the administrative work involved in insuring trade and recovering arrears which would otherwise be handled by the exporter and the Export Credits Guarantee Department.

Companies that bought the service would continue to be insured under the standard ECGD policy, but, it was claimed, costs could be cut by tighter credit control and fewer claims on the policy. The scheme, to be called UNEXIS, does not provide trade finance.

The company said that in the event of non-payment, it would pay 80 per cent of the insured value of the goods 90 days after the due date, and the balance after a further 90 days, minus a management charge.

The ECGD pays 90 to 95 per cent of insured value after the due date, and the balance after a further 90 days and six months.

The scheme was welcomed by ECGD officials as "an important new venture in the field of export credit management."

Cuba to boost trade ties with West

A BRITISH business mission to Cuba returns to London today confident about increased numbers of orders after receiving assurances that Cuba intends to boost its trade ties with the West.

Senior trade and banking officials, including Sir Ricardo Cabrisas, the Trade Minister, made clear to the 20-member mission that Cuba needed more Western expertise to update its own industries.

Cuba wants to boost its imports from Western nations to 20 per cent from 16 per cent, the officials said.

This would indicate Cuba's imports from Comecon would scale back to 80 per cent from existing levels of 84 per cent.

Western exports to Cuba would therefore rise to \$1,050m (£875,000) this year from around \$800m in recent years.

Potential exists for an even greater scope for imports but is hampered by tight Paris Club restraints which followed Cuba's own debt rescheduling of August 1982.

Cuba is also pressing for more liberal export credit terms from Western agencies, particularly Britain's Export Credits Guarantee Department, which Cuban officials cited as having been particularly conservative with only short-term coverage limited to \$10m.

Cuban Central Bank officials met British bankers in London this week to discuss debt matters and hope to achieve more liberal terms from the ECGD when the two sides meet

in Havana later this month.

For those British companies on the mission, the 10-day visit gave them a first-hand opportunity to meet Cuban import agencies and to make a medium-term assessment of Cuba's import needs.

Visits to factories and project sites elicited the universal observation that Cuba needs considerable injections of Western "know-how" if it is to update its own infrastructure

sending companies providing valves, conveying and transmission equipment, tools and measuring instruments, drainage material, basic chemicals, solvents and package equipment.

Western trading interests operating in Cuba's centralised economy accept that business on an individual basis, must be at small levels.

The British companies, for example, say they are individually doing business at annual

levels ranging between less than \$100,000 and \$1m to \$2m.

Similar experiences have been found by Canadian trade officials in Havana, who have been handing up to one mission a month in the past 18 months.

Canada, through more than 10 years of solid tourism links, has become Cuba's largest Western trading partner with exports at \$295.3m in 1983 and estimated to be 3 per cent higher last year.

They are dominated by wheat, other agricultural goods and timber products with chemicals and manufactures at 7 per cent of the total. Canada's imports from Cuba were worth \$55m.

Britain's export trade share, mostly in manufactures, was worth \$24m in 1984, leaving the UK on a reasonably equal foot-

ing with other competitors, such as Spain, France, Germany, Italy and Japan.

Spain is Cuba's largest Western export market, largely on the strength of rum and tobacco products, and is the only Western trading partner with which Cuba enjoys a surplus.

Lord Seldon, financial adviser to the Midland Bank, who was the tour leader, said it was important for Britain substantially to boost its imports of Cuban products as this would help British exporters carve a niche in the only market in the Western hemisphere not served by the U.S.

These goods could include such items as honey, rum, molasses, oil and sugar, much of which could be moved to other markets with Britain serving as an entrepôt.

Western trade specialists believe efforts to help the Cubans and markets could, in the long term, lead to major infrastructure projects in Cuba, currently dominated by Soviet and Eastern European state industries. The most immediate potential is in the hotels and service sector.

But one which caught the eye of Lord Seldon was the recently prepared plan to overhaul Havana's sewage system. It was Lord Seldon who spearheaded creation of the British consortium which has won several hundred millions of pounds in contracts for the Cairo Wastewater Project.

Cuba needs considerable injections of Western 'know-how' if it is to update its own infrastructure and boost the export potential of its products, Frank Gray, recently in Havana, reports.

and boost the export potential of its products.

The most useful expertise is in basic and medium technologies. The paints division of ICI, for example, learned that there are more than 1,200 bridges needing paint in Cuba and numerous public buildings around Havana requiring attention as the Government begins the long task of improving the city's appearance.

Paint factories themselves need overhauling if they are to begin to meet domestic needs.

Spear and Jackson of Sheffield found a shortage of wood and industrial cutting equipment, but more importantly, said that that sector lacked adequate support equipment, such as sharpening machinery.

Similar needs were found by other mission members repre-

Tokyo sets seal on U.S. steel pact

THE JAPANESE Cabinet yesterday approved a five-year plan to cut steel shipments to the U.S. from 6.3 per cent to 5.8 per cent of the U.S. market, AP reports from Tokyo.

Japan is one of nine steel exporters Washington has persuaded since last September to reduce shipments and help cut the foreign share of the U.S. steel market from about 25 per cent to about 18.5 per cent.

The foreign ministry said Japan would limit exports of six steel categories—sheet and strip, plate, structural, bar, pipe and tube, and wire.

The pact, retroactive to October 1, 1984, will also reduce the export of fabricated steel structures, to 100,000 short tons a year.

Japan agreed in December to reduce its exports. MORE THAN half the members of the U.S. Senate have signed a letter sent to Mr John Block, U.S. Agriculture Secretary, urging the U.S. Administration to resume mixed credit sales of U.S. farm products to foreign buyers.

These credits are designed to make U.S. products more attractive. Normal commercial credits are mixed with government money appropriated for international aid, so that the foreign purchaser obtained the goods at a lower cost. Other governments, especially France, use such credits frequently. The U.S. has not done so recently.

FOCUS ON OVERSEAS INVESTMENT AND CAPITAL EXPORT

BROTHER INDUSTRIES: Conservative Steps



Mr. Katsuji Kawashima
President
Brother Industries, Ltd.

By Richard C. Hanson

For many people in the West, especially journalists, the name of Brother Industries is now popular for its innovations in portable electronic typewriters—and its well-advertised role as an official supplier of typewriters to the Los Angeles Olympics.

However, Brother was founded 51 years ago in Nagoya, mid-way between the better known cities of Tokyo and Osaka, as a maker of sewing machines. The name of the company reflects the fact that it was the brothers of Yessu family who launched the company with one bold idea: building a sewing machine that would not only compete with imports, but also be exportable.

Brother's management combines conservative ways with a willingness to take risks in entering new areas of business, qualities characteristic of Nagoya's citizenry. Mr. Katsuji Kawashima explains how Brother became a household name around the world.

Hanson: How did you make the transition from being known primarily as a sewing machine maker to that of a supplier of office equipment?

Kawashima: The point is that for 50 years our company's policy has been the same. Last year was our 50th anniversary. When our founder, Mr. Masayoshi Yessu, started Brother the aim was simple: to make jobs. There was a depression on. At that time, Japan also depended on imports. So we decided to make products that could be exported. His father repaired sewing machines, so he chose sewing machines. After the Second World War, it was agreed that sewing machines were a useful product, both for employment and as an export. We began to diversify into electronic appliances, typewriters and so on. We always kept in mind our engineering capabilities and the marketability of the product.

Hanson: It sounds as though you are used to adversity.

Difficult Times Overcome

Kawashima: We've had some difficult times. After the dollar shock and the oil shock of the early 1970s, we thought exports were doomed. Our exports fell 30% in 1974, but then rebounded by 50% the following year. Our policy was to keep exports at about one-third of our total sales. We thought that was safe. We then changed our basic policy to bring the ratio of exports up to 50% of sales. Moreover, we decided to place more emphasis on typewriters. Our basic product was home-use and industrial sewing machines had been. Four years ago, when our sales were about yen

100Ba, we launched a new five year plan. That was designed to double our sales, and change the mix of our products to one-third sewing machines, one-third typewriters and office equipment, and the remainder in other products. Last year, we had already exceeded our sales target. And the boom in office equipment meant typewriter sales met the mark. However, exports have leaped up to about 60% of sales—higher than our goal.

Hanson: That seems like good planning.

Kawashima: What we did was to introduce more electronic technology in our products, and we invested in expanding our international sales force. We were also helped by the publicity of being an official supplier of typewriters to the Los Angeles Olympics.

That was our first big move into electronic office-use typewriters. We began with manual typewriters 25 years ago, and we expanded into dot matrix printers. We have just announced a new innovative printer, the Twintier 5, which combines both daisy wheel and dot matrix capabilities.

Hanson: Why did you get into producing manual typewriters?

Kawashima: At the time, our main export was sewing machines. One of the retail chains we used in the U.S., Western Auto, asked us whether we could produce a typewriter for \$50, to compete with other producers. The bottleneck was that typewriters were produced only by two or three companies. If we bought from them, we wouldn't have been able to compete. So we decided to use a special method to produce our own typeface. That is how we succeeded. If we make a good product, then we can sell it. That goes back to the company's original idea.

Hanson: Your overseas sales now exceed domestic sales, thanks largely to the popularity of Brother business machines. What is the secret to your

success as an exporter?

Kawashima: About 31 years ago, we decided to form a trading company. That trading company formed a company in America. At that time, export prices were going down. There were lots of problems. What we finally did was to leave the development of the American company to three key people in the U.S. I was supposed to go to America, but things were too busy here in Japan. So we depended on the American management. We just made good export products.

Hanson: You have expanded your overseas sales force considerably. What about moving production to overseas plants?

Moving Production Overseas

Kawashima: We can sell in Asia and the U.S., but we found early on that there were barriers to imports of our sewing machines in Europe. That's when we decided to build a plant in Dublin, Ireland, to assemble machines on a knockdown basis. We now have plans to build a plant to produce electronic typewriters in England, which will start assembling by the end of this year.

year. The biggest reason for setting up overseas is to extend our export market. We have cooperated in setting up industries in countries like Brazil.

Hanson: What about competition from South Korea and Taiwan?

Kawashima: Competition is very severe from those countries. We have set up sewing machine plants in both countries, both for exports and for the local market.

Hanson: If it is less costly to produce in South Korea and Taiwan, does it follow that Japan is going to become less and less important as a production base for export?

Kawashima: Yes, let me illustrate. The peak for sewing machine production in Japan was about 4.36m units in the mid-1960s. Japan now produces only 1.3m or so per year. Most of the volume has moved to Taiwan. The Japanese market is still about the same—around 1m machines a year—the 3m units we used to export are gone.

Hanson: You achieved your five-year plan goals two years early. What do you do now?

A New Five-Year Plan

Kawashima: Starting next year, we will set out another five-year plan starting in 1986. I think we will try to continue to target exports at about 60% of sales. And I want to bring office equipment to 50% of the total and keep sewing machines at 25% of the total. New products will make up the rest.

Hanson: What is Brother's approach in developing new products?

Kawashima: Over the past five years, we have doubled the amount of money we spend on research and development to over 3% of our sales. We are spending more on new equipment and expanding production. Our capital spending budget is yen 18Bn this year.

Hanson: Nagoya-based companies are known for their conservative financial practices. How are you funding your expansion now?

Kawashima: In fact, after 14 years of no bank loans, we borrowed money for the first time. On capital markets, we have raised yen 20Bn, one-fourth of that in overseas markets. But my goal is still to keep the company's equity ratio above 50%.

Hanson: Are there any additional plans to tap the international capital markets?

Kawashima: At this moment, we don't see any need to increase our capital again. But this year, our sales will be increasing in over yen 200Bn and profit to more than yen 18Bn. That is still a good position for a company with our capitalisation. When we get much bigger, we will have to reconsider raising it.

Hanson: What are your sales targets? Your forecast is to increase total sales by 12% this year. Can you maintain double-digit growth?

Double-digit Growth

Kawashima: Domestic sales are not going up as fast as I want, so it is difficult in project. Trade problems are also an uncertain factor. Our exports went up 30% last year mainly because of office equipment. But there are too many suppliers creating a glut of new products in America, too many competitors. So business may be down. However, we can see some increase in sales in China.

Hanson: What about new products?

Kawashima: We were fortunate to have introduced the epoch-making portable electronic typewriter, the EP series. We already have three models, the same size and price but more functions. Our problem is to continuously plan far ahead for new products. For example, when we were approved by the Olympic Committee to supply office-use electronic typewriters, we weren't yet making them. We set our goal and had to meet it.

Hanson: The region surrounding Nagoya seems to have an exceptional concentration of successful manufacturers. Brother Industries is one example. Does Nagoya have any particular strength?

Kawashima: You might think that Nagoya is a very aggressive place, because Toyota Motor is here. But actually it isn't. This is a very conservative place. We have a saying, tap a stone bridge before crossing. Sometimes you don't cross it. Sometimes you don't even tap it. But 50 years ago when we started, it seemed very daring to start making sewing machines. But progress is step-by-step. Our targets are very high, and that looks aggressive, but the steps are very conservative.

The future at your fingertips.

brother

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RESOURCES REVIEW

Vietnam tackles its energy shortage

By Chris Sherwell, recently in Hanoi

STREET LIGHTS burn dimly in Hanoi and Ho Chi Minh City. Barely a day goes by without factory blackouts caused by power cuts. Petrol stations do not exist. Vietnam is energy-short and progress towards remedying the problem is slow.

The official explanation is simple. The country has had decades of war, and failed to exploit its own resources. According to Mr Tran Phuong, Vice Premier with special responsibility for the economy, that is now changing. Strong efforts are being made to develop energy supplies, to save precious foreign exchange and reduce outside dependence.

Vietnam's main domestic energy source is still coal, as it has been for ages. But hydro-electric power is being developed, and there is an offshore oil and gas exploration programme. Mr Tran Phuong even likes to talk of a Vietnamese nuclear station.

Annual coal production has stagnated in recent years, at 5-6m tonnes. The mines, which are in the north, use outdated equipment and some were destroyed or damaged during the 1979 border war with China. Vietnam's northern neighbour, a large share of the output consists of dust coal.

Officials say new mines will come on stream as older ones are exhausted. The hope is that productivity will also be raised, through the use of more

modern equipment supplied by two new engineering plants built with Soviet assistance. But production may not rise substantially before the 1990s.

Proven recoverable reserves are put at around 130m tonnes. Several hundred thousand tonnes of coal are usually exported, providing much needed foreign exchange. But the export volume fell in 1982 and again in 1983.

Major markets like Japan declined because they have the technology to use lower quality coal than Vietnam's low sulphur high ash coal, and Vietnam has failed to develop alternative markets. Indeed, it also imports special grade Australian coal, in exchange for shrimps.

Coal is helping to alleviate Vietnam's dire power shortage through its use in new thermal plants. For example, it fuels the 28MW station built as part of the Swedish-financed pulp and paper mill in Vinh Phu province. The station uses fluidised bed combustion technology.

Another, much larger thermal plant—a 500 MW station at Pha Lai—was inaugurated in 1983, and the Government is now talking of a 1,200 MW thermal plant south in Danang, built with equipment and aid from Czechoslovakia.

Pha Lai is one of three major power plants built or under construction with aid from the Soviet Union, and officials be-

lieve that many of the country's production problems will end when these are fully onstream by the early 1990s. The other two—a 1,500 MW facility at Hoa Binh on the Black River north of Hanoi, and a 300MW facility at Tri An in the south—are both hydro-electric projects. Hoa Binh, dubbed by some as Asia's Aswan Dam, is reckoned to be the largest.

It is not clear what has gone wrong, if anything, but oil self-sufficiency is still some way ahead

power plant in South-East Asia. It is built underground, making it less vulnerable to attack. Thousands of Vietnamese workers, helped by Soviet advisers, are being employed to get the first generators started in 1987. Completion is currently set for 1991.

The Tri An plant is 60km south of Ho Chi Minh City (formerly Saigon), in an area reputedly damaged by American chemical weapons in the war against the U.S.-backed regime in South Vietnam. The first turbine is scheduled to start by 1987, with completion

by 1990. The dam will also be used to irrigate 200,000 hectares of land.

The Government hopes that the hydro plants, together with the development of smaller-scale hydro projects, will allow the diversion of more coal for export and help save on oil imports.

The bulk of Vietnam's oil comes from the Soviet Union at an estimated rate of 1.6-1.7m tonnes a year. It is not clear precisely what Vietnam's arrangements are for these purchases, but Moscow allows deferred payments and it is assumed Hanoi will pay in kind covered oil, if not in goods or cash. With foreign exchange reserves at little over U.S.\$16m, cash or near-cash payments are unlikely.

The position is almost certainly different with a second, smaller source, namely Singapore, whose trade figures show its main domestic export in Vietnam as mineral fuels. In addition, according to one Vietnamese, at least one state enterprise under the control of government ministry is earning foreign exchange through a Japanese programme in neighbouring Laos, and this hard currency is used to purchase oil from the Middle East. This information, however, has not been confirmed.

Though the supply of oil and oil products is state-controlled in Vietnam—there are no

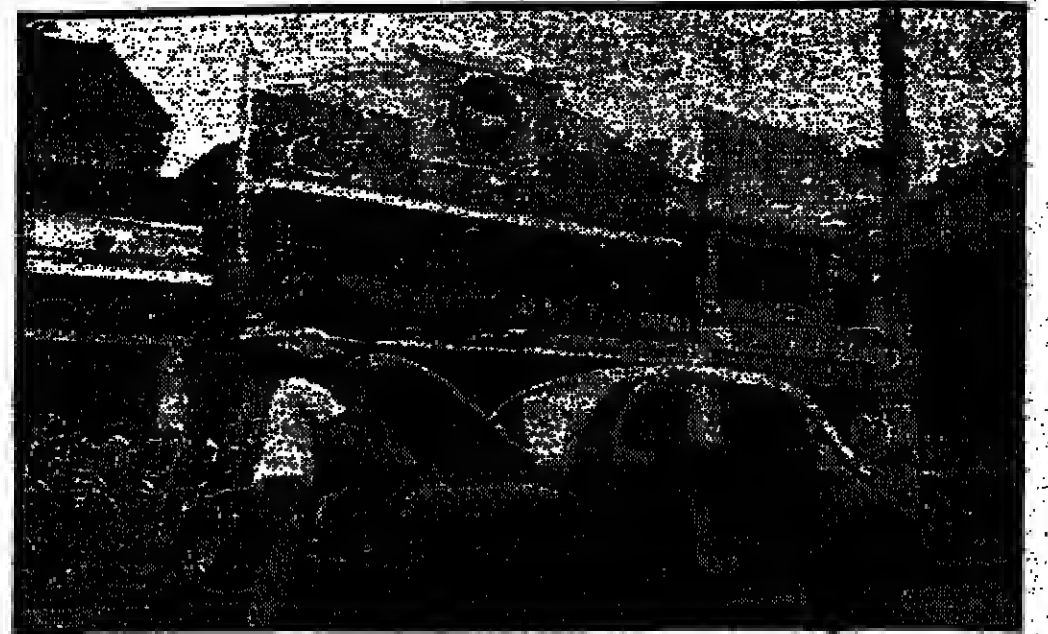
private cars and petrol stations are nowhere to be seen—the number of privately-owned motorcycles, especially in Ho Chi Minh City, suggests that control is less than total. Indeed, officials admit that government supplies are siphoned off for sale to traders in the free market.

As for Vietnam's own resources, before the fall of Saigon in April 1975 several Western oil companies had begun exploring for oil and gas off Vung Tau on the southern coast. Some of these negotiated contracts with the Vietnamese authorities after 1975, but the last left by 1981, apparently because of disappointing results and high costs.

That year, Hanoi and Moscow signed an oil co-operation agreement. In 1983 Mr Nguyen Co Thach, Vietnam's Foreign Minister, claimed that Vietnam would have its first oil by the end of the year. The country, he said, would be self-sufficient by 1986 or 1988, and begin exporting in 1990.

This schedule is now officially admitted to be way off target, but it is not clear what has gone wrong, if anything. Some people believe the attractions of U.S. offshore expertise, widely thought to be ahead of the Soviet Union, are one reason why Vietnam would like to see more normal relations with Washington.

Others wonder about the true



Ho Chi Minh City, formerly Saigon. New petrol is almost impossible to get

resource position. On reserves officials will say only that latest indications point to domestic oil production of "many million tonnes per year" and reserves of "many hundreds of millions of tonnes," giving no precise estimates or explanations.

Recently, Mr Tran Phuong told the foreign Press in Hanoi that there were two rigs now operating, capable of producing a "few thousand" tonnes per year, and that Vietnam intended to put up "dozens" of rigs. He was speaking around the time of a visit to Vietnam by M Jean-Baptiste Loumang, the French

businessman with Communist connections. He concluded a complex \$200m deal involving offshore oil equipment for Vietnam.

The Minister also claimed that some natural gas reserves had been found in the north, and said he hoped Vietnam would in the 1990s have a 440MW nuclear power station of the kind Comcon the East bloc trading group, used. This would be sited near an old nuclear energy research centre in the south, at Da Lat.

By that time, according to official calculations, hydro re-

sources in the south will have been fully exploited. In the north, on the other hand, the region's power needs will be adequately met with thermal and hydro power.

At any rate, it is clear that Vietnam, as one of the poorest and least developed countries in the world, has a long way to go in the energy field if it hopes to compete with its non-communist neighbours.

The immediate objective of putting an end to power shortfalls is likely to grow, and the longer-term picture is less clear.

APPOINTMENTS

Managing director for Bowater-Scott

BOWATER INDUSTRIES AND SCOTT PAPER have appointed Mr Robert E. Rodgers as managing director of Bowater-Scott from June 1. He has been deputy managing director of Bowater-Scott since early 1984, having previously held senior appointments within Scott Paper. Mr Rodgers succeeds Mr Robert J. Healey who returns to Scott Paper in Philadelphia, prior to retirement at the end of 1985.

Mr David W. N. Landale has been appointed chairman of TIMBER GROWERS UNITED KINGDOM, the Government-recognised body representing private woodland owners. He takes over from Mr J. M. G. Galbraith.

Mr P. A. Randall has joined the partnership of T. G. ARTHUR & CO., independent consulting actuaries. Mr G. H. M. Godard has resigned.

SUMITOMO TRUST has opened a wholly owned subsidiary in Luxembourg, Sumitomo Trust and Banking (Luxembourg) S.A. The chairman is Mr Masahiko Matsunaga, who is also chairman of Sumitomo Trust International in London. The general manager, Mr Masatsuki Esaki, has been promoted from London where he was deputy managing director of Sumitomo Trust International.

PANNELL KERR FORSTER has appointed four new partners: Mr Andrew Wilkinson in Belfast; Mr John Thompson in Derby; Mr Bryan Jackson in Glasgow; and Mr Michael Page in Bristol.

Mr Colin James has been appointed a director of MARLEY. He remains company secretary.

The STEEL WINDOW ASSOCIATION has elected as president from June 21 Mr I. D. Collin, Crittall Windows, and Mr S. K. Evans, Betsworth Casements, will be the new vice-president.

SUTER has appointed Mr Robert Morris as managing director of its newly formed distribution group. He is currently managing director of Nationwide Refrigeration Supplies, a wholly owned Suter subsidiary. Mr Morris has also joined the board of Suter Equipment and will assume full responsibility later in the year upon the retirement of the current managing director, Mr Bernard Moody, who is also a member of the Suter main board.

THE CHARTERED ASSOCIATION OF CERTIFIED ACCOUNTANTS has elected to serve for the year 1985-86: Mr P. T. Hobkinson as president; Mr N. Cannon as deputy president; and Mr S. Thomson as vice-president.

Mr Barrie Murray-Upton has been appointed UK and European managing director of

CADNETIX, of the U.S. The appointment follows the opening of the first overseas subsidiary in the UK based in Gloucestershire. Mr Ian Yates has been appointed UK and European director of marketing.

Mr Michael Seah has been appointed sales/marketing director of REED ASIAN PUBLISHING (PTE), Singapore. The company has been set up by Business Press International to represent its three Asian trade journals: Asian Building and Construction, Asian Electricity and Far East Health.

Following the purchase of CENTURY ALUMINIUM from the Amari Group by ASV of Norway, Mr Jon Kvam and Mr Munt Prens of ASV have joined the board. Resignations have been accepted from Mr A. Miller and Mr A. R. Merrington of the Amari Group, and from Mr Bill Meredith who has retired from Century.

Mr E. J. Jordan, chief executive of Henry Bath and Son, has been appointed to the board of the METAL MARKET AND EXCHANGE COMPANY.

Mr David Braghton, director of BIS Applied Systems' MODUS division and the man behind the development and marketing of the BIS/IFSE (Integrated Project Support Environment), has been appointed an executive director of the company.

Mintex Don board formed

Following the acquisition by BBA Group of Cape Industries' automotive business, the board of the new company, MINTEX DON, has been appointed. Chairman will be Dr J. G. White, who is group managing director of BBA Group. Mr J. V. Bedford becomes managing director. The other executive board members are: Mr G. Cartwright, manufacturing and deputy managing director; Mr M. R. Black, finance; Mr J. A. Clayton, operations; Mr D. Moran, R and D. Two non-executive directors are Mr M. L. Bentley and Herr H. Siertleben, chief executive, Texas.

Mr Bryan Benn, chief accountant, has been appointed chief internal auditor at BRITISH RAILWAYS board headquarters. He succeeds Mr D. J. Coates, who held the post on secondment from Peat, Marwick Mitchell and Co and has now returned to that firm. Mr Benn takes up his new duties on June 1.

Mr Dennis Hutchings has been elected president of the FREIGHT TRANSPORT ASSOCIATION for 1985-86. Mr Hutchings, who is group transport co-ordinator, from EMI was first elected president for the year 1984-85. Vice-chairmen are Mr Fraser Menzies, director of distribution, Reckitt and Colman, and Mr Stuart Phillips, distribution director, Rank Hovis. Honorary treasurer is Mr Robert Benn, director, transport group, Dairy Crest Foods.

Mr Gerard W. C. Lemmens has joined GERRUENDER HESSELBERGER, hop merchants, as joint managing director.

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TECHNOLOGY

EDITED BY ALAN CANE

Manufacturing automation: How to make it work

INTEGRATED Manufacture is to computer. Integrated manufacture is competing in a Grand Prix championship in developing racing cars.

So argues Ingersoll Engineers in the introductory chapters of a new report which weighs manufacturing automation worldwide in the balance — and finds it wanting.

Computers, it says, have proved themselves in the fight to drive down costs and improve efficiency: yet the survey showed that integration of businesses through the widespread and dedicated use of computers hardly exists at all.

"Very few companies," it says, "have what might be described as compelling shop window installations running at a level sufficient to stimulate interest and application. And other systems, parts of which may be operating under computer control, do not live up to the integrated manufacture requirements of simplicity and lower production cost."

Depressing findings, these, after so many years in which computer-integrated manufacture (CIM) has been hailed as the way forward in manufacturing technology.

Ingersoll is careful to make clear, however, that it believes implementation is at fault rather than the basic concept.

Its own surveys showed that where CIM had been properly implemented reductions of up

to 30 per cent in engineering design cost could be obtained, lead times could be slashed by 60 per cent and product quality, as measured by yields of acceptable product could be increased up to five times.

Other advantages included: productivity of capital equipment increased by two to three times, work in progress reduced by 30-60 per cent and up to a fifth reduction in personnel costs.

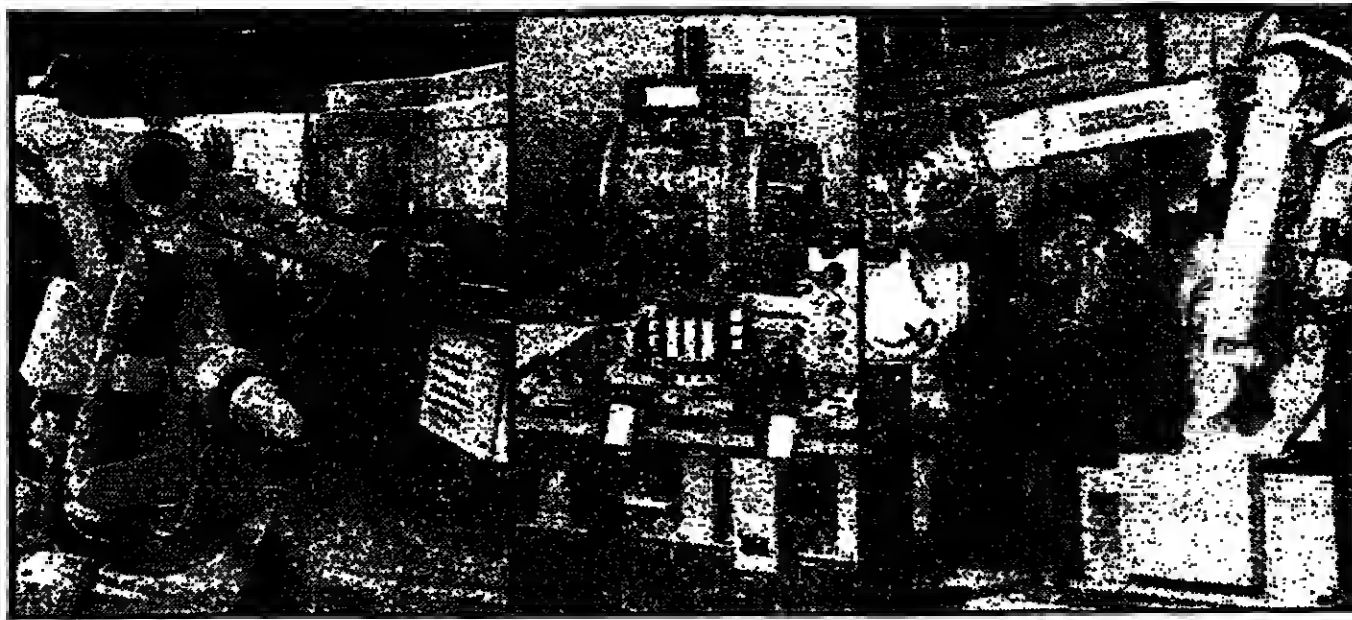
So Ingersoll would seem to be right when it says that CIM is the most important enabling technology available to revitalise manufacturing industry.

So what is going wrong? Why is manufacturing industry world-wide apparently failing to exploit the benefits of CIM?

First, some definitions. Integrated manufacture is a business philosophy defined by Ingersoll as "forcing out unnecessary waste by reducing complexity and cost while improving quality in order to be much more competitive."

CIM is the enabling technology that makes integrated manufacture possible. Ingersoll argues that CIM is not easily understood, that it is an intangible concept with many definitions depending on the standpoint of the protagonist.

Nevertheless, it can be understood at one level as the use of a computer, or series of intercommunicating computers, to



Robots and a flexible machining system: Can they really be integrated in the factory of the future?

hold and process all the information about the manufacturing process from receipt of order and raw materials ordering to despatch of the finished product and credit control.

To integrate so many different processes and operations is very difficult and is one of the chief reasons why there are so few fully operational CIM

systems.

The Ingersoll report says: "First simplify; second integrate and then apply CIM technology as appropriate."

"Manufacturing organisations are complex," it says. "Despite all the advances made in recent years to improve manufacturing processes—automation, administration, design techniques and

so on—understanding and controlling the entire manufacturing process is now so complex that no one person can manage it in any but the smallest firm."

Why computerise in the first place? Ingersoll queries. There may be areas where manual systems will do the job better.

Integrated manufacture should encompass the whole

business, embracing all the processes in making and selling products successfully—marketing, sales, design, engineering, production, accounting and finance.

Nevertheless, a series of case studies indicates the power that the computer can exert on the manufacturing process. For example:

● A \$750,000 machine tool for boring six-cylinder Cummins diesel engines was in trouble. The bore shapes it was producing were inaccurate and engineering analysis and trial and error procedures had failed to locate or correct the problem.

A computer program was written to simulate the operation of the machine, creating the shape of the bore on a visual display. Experiments with the simulation showed that at a certain point, it became clear that reversing the spindle direction did not change the relative places of the faulty bores.

This clue pointed the way to the problem and its solution, a solution which would not have been possible without the computer.

● Ingersoll studied some 40 companies manufacturing engineering products with turnovers of between £2m and £20m. The analysis of these companies, all of which had invested in some elements of CIM, showed that a typical payback period for computer production and inventory control was six months to one year, for computer aided design, six months to 18 months and for complete flexible machining systems, three to seven years.

How then should a company plan to integrate its manufacturing operations? "This report advocates that integrated

manufacturing is approached, not as a combination of existing or known technologies and equipment that must be linked together, but rather from first principles, by examining all aspects of a total business—its future, markets, people, manufacturing and products—and combining them in a new way to meet long-term business objectives."

The report emphasises the importance of keeping the project simple: "The key features will be simplicity, practicality and attention to detail. Attention to detail must be absolute and cannot be avoided."

A detailed plan is required to manage the project through its separate phases and adequate resources must be available: "To attempt implementation without these will reduce significantly the chances of success."

But if there is little experience world wide in implementing total integration systems, there is plenty of expertise in project management: "All the skill required to implement CIM projects are available—it is only the definition of the project which is different."

Integrated Manufacture, £65, IFS Publications.

Alan Cane

We do not envy anyone faced with the problem of choosing a computer system. Some systems are going to survive. Some will be obsolete before you plug them in. And you have to be a fortune-teller to know the difference.

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OLIVETTI AND AT&T JOIN FORCES; A MARRIAGE MADE TO LAST

In December 1983 it was announced that AT&T, the U.S. telecommunications giant (1984 revenues: \$33.2 billion) would buy a 25% participation in Olivetti. AT&T, with its world famous Bell Laboratories, and Olivetti, Europe's leading data processing company, would form an unparalleled combination of technological, marketing, and financial strength.

The financial press called it "a brilliant alliance, formidable enough to take on IBM®." The marriage has borne fruit.

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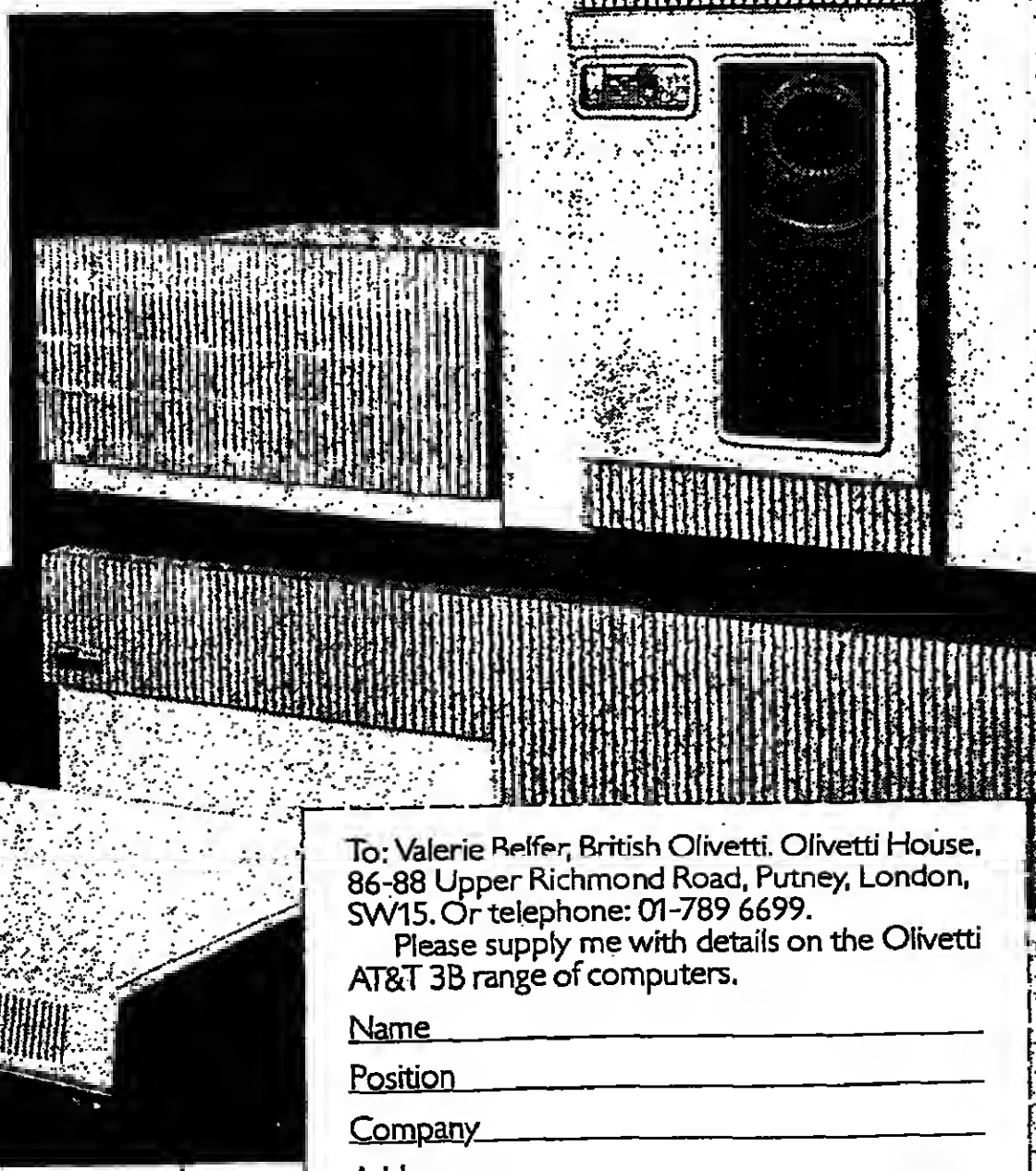
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computers are the only ones in the world specifically designed to get the best out of UNIX System V. That's not surprising when you realise UNIX System V and the 3B range were both developed by the same people. They provide the power and the flexibility to support any number of users, running any application from accounting and word processing right through

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THE POWER TO MANAGE THE FUTURE

Japanese novelties for the motorist

BY GEOFFREY CHARLISH

WHAT PRICE a raindrop sensor that will control a car's wipers automatically, depending on the amount of rain, or a device that will directly sense air temperature and mechanically brake the cooling fan in very cold climates?

Usually, the world's car makers do not readily reveal developments based on novel materials before the production stage. But Nissan of Japan has just published details of about 30 vehicle novelties using materials ranging from fine ceramics to light-guiding plastics that transmit signals from moving parts.

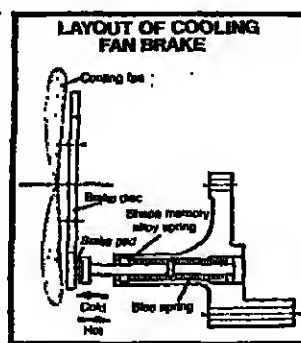
The wiper control is already in several Nissan models. It uses barium titanate piezoelectric material to "listen" to the intensity of raindrops falling on its surface. The impacts become electrical signals which can be used to control the intermittent operation time of the wipers.

The fan brake, still experimental, uses one of the nickel/titanium "shape" alloys that are able to remember "what shape they were given at lower temperatures. In this case a spring made of the metal expands when cooled down and presses a shoe against a brake ring on the fan, reducing engine cooling. The device differs from previously announced actuators which need heating currents — Nissan's device is self-contained.

Transmitting signals from steering wheels normally means using slip rings—rings of metal to which fixed contacts on the column make contact. The Japanese company's answer is to use a photoconductive plastic ring for sending and

receiving optically multiplexed light signals originating from control on the moving wheel. Troublesome electrical contacts have been done away with.

Ceramics are planned, or are in use in various components. For example, silicon nitride and other highly wear-resistant materials have been applied experimentally to rocker arms, to cope with the higher operating speeds of engines and exhaust gas re-circulation in diesel engines. The weight of turbocharger rotors has been reduced using the same material.



Nissan also reports it is working on the use of carbon fibre reinforced epoxy resin for propeller shafts, resulting in greatly improved levels of vibration. Similar reinforcement using glass fibre is being developed for leaf springs in suspensions. The weight is 80 per cent that of a steel spring and due to a low spring rate, a more comfortable ride is claimed.

New expert system shell devised for the layman

BY BRUCE ANDREWS

AN EASY-TO-USE expert system "shell" called "Xi" for professional personal computers, is expected to be available next month. The price will be £495.

Produced by Expertech, of Slough, Backs Xi is based on PROPS, a development tool devised by the expert systems research team of the Imperial Cancer Research Fund, under Dr John Fox. Expertech was granted the licence to exploit PROPS last October.

Progress in developing PROPS for use by the layman has been fast. Its launch will be six months ahead of Expertech's original schedule.

"It became clear that we had the opportunity of producing a new kind of tool for building business applications," said Alex d'Agostini, Expertech chairman. "This will amount to a VisiCalc of expert systems and enable office staff to experiment with and to learn about this technique for exploiting their own knowledge, without specialised training."

The program is written in the artificial intelligence language Prolog but knowledge bases may be created in English without any programming knowledge at all, the company claims. It runs on MS/DOS and needs a minimum random access memory (RAM) of 884K. This means it may be used on many of the personal computers used by business today.

itself in terms of the rules it has been given. The user may vary his inquiry at any time with a "What-if?" facility.

Expertech hopes that Xi will be used, initially, to take over mundane office tasks. Examples given are company expenses rules, commission systems, safety regulations, and the procedures for obtaining statutory sick pay, where small claims are often ignored at present because of the time it takes to work them out. Book-keeping systems, auditing procedures and balance sheet analysis are other possibilities.

From experience with comparatively simple applications, Xi users are expected to gain the skill to store the specialised knowledge of company experts ("rare skills archiving").

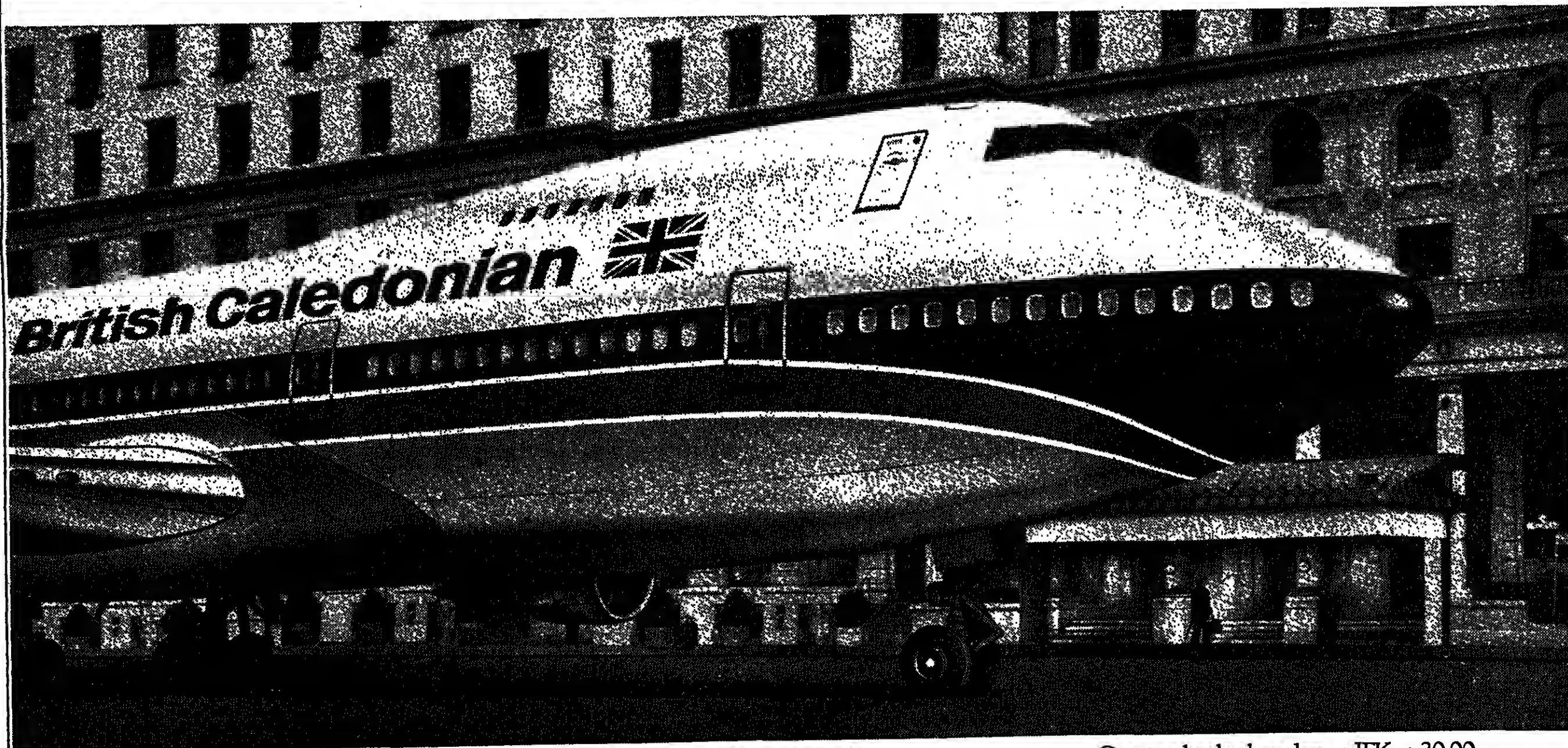
The limitations of Xi, according to Expertech, are largely governed by RAM and disk capacity. In practice, it might be hard to build a knowledge base using more than about 300 rules at any one time, given the memory limitations of the average office micro.

But where a knowledge base requires more than 300 rules, and rules proliferate as a base is developed and refined, it is possible to create a series of discreet but inter-related knowledge modules. An advice system on Xi for a complex subject such as corporate taxation might require as many as 10 modules. Since storage capacity sets the module limit, a Winchester disc-drive is an obvious advantage.

The developers acknowledge another limitation: it is difficult to integrate Xi with other software. It will be upgraded in about three months, they promise, to achieve full integration.



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UK NEWS

DUTCH GROUP WILL IMPORT WASHING MACHINES AND DRYERS

Philips to close white goods plant

BY CHRISTOPHER PARKES

PHILIPS, the Dutch electronics group, is to end the manufacture of washing machines and dryers in Britain. It said yesterday that it would close its factory in Halifax, northern England, over the next 12 months with the loss of 550 jobs.

Production for the British market is to be taken over by the company's giant plants in France, West Germany and Italy.

After pondering the move for two years, Philips concluded that the 14-year-old Yorkshire plant was too small and could not be extended to give the economies of scale necessary for profitable production. "The factory would have to be three to five times its current size for it to be viable," an official said.

There is about 20 per cent overcapacity in the European domestic

appliance industry at present. "This has resulted in an extremely competitive situation and it is clear that production must be achieved in large manufacturing units where the required economies of scale can be gained," the company stated.

Market shares and production figures are jealously guarded secrets, although Philips is believed to hold a strong position in the UK

home laundry business behind Hotpoint, Hoover, Indesit and Zanussi. Philips said yesterday that it was preparing plans for an "aggressive expansion" of its slice of the British trade.

Mr Jim Collis, director general of the UK appliance makers' association, Amodea, said the closure would hamper British manufacturers' attempts to reduce imports.

BT beats loss of equipment monopoly

By Jason Crisp

BRITISH TELECOM (BT) has effectively beaten the Government's attempt to liberalise the market for private exchanges, the largest single sector in the telecommunications equipment business.

BT has been so successful in persuading organisations to buy exchanges (PABXs) and key systems in the last four years that demand is now expected to fall sharply, just as dozens of companies are entering the market.

A market study commissioned by some of the leading telecommunications companies shows that nearly 70 per cent of PABXs and key systems in Britain have been recently replaced with modern electronic equipment. In the year ended last March, BT held 80 per cent of the market for this equipment, according to the study by MZA, a specialist marketing consultancy.

As most organisations have recently replaced their exchanges, demand is expected to fall sharply from 88,000 units in 1984-85 to 21,000 in three years' time, according to MZA. It also predicts BT will retain an 82 per cent share of this much diminished market.

The report confirms that BT has moved very quickly to thwart the effects of losing its equipment monopoly, by selling its equipment before the market was actually liberalised. Its position has been considerably strengthened by the long delays in the setting of technical standards and equipment approvals for competitors.

The study is particularly embarrassing for the Department of Trade and Industry which has been promoting liberalisation. PABXs and key systems account for 58 per cent of the British telephone attachment market worth £375m last year at manufacturers' prices. The Department recently tried to speed up the approvals process for PABXs being offered by 12 companies, including Ferranti-GTE, Northern Telecom, NEC and Rolm.

The report does show that liberalisation has been slightly more effective in the supply of telephones. BT still has an 82 per cent share, but this is expected to fall to 50 per cent in the year ending March 1988.

The UK Telephone Attachment Market, £2,950, from MZA, 36 The Green, Marlborough, Wiltshire.

A Wellcome curiosity for the stock market

BY TONY JACKSON

AMONG the world's big drug companies the Wellcome Foundation, which this week announced its intention to go public early next year, has one of the least public profiles.

This is largely because of its unusual structure - an essentially charitable organisation, owned by a trust which distributes all the profits derived from its ownership to medical research.

Now, however, the Wellcome Trust has announced its intention to sell off an initial 20 per cent of the Foundation in a London Stock Exchange flotation. This has no effect on the way the company itself is run. The Trust has simply decided that to carry on its charitable programme it would like to spread its sources of income, using the proceeds of the flotation to make investments elsewhere.

The decision does, however, push the company into the limelight, not least because the stock market is curious to know what it is to be offered. Wellcome is not easy to value in market terms, pharmaceutical companies, which tread a curious line between jackpot success and failure, seldom are. Early guesses of £1.5bn for the whole company seem exaggerated. A figure of close on £1bn, though, looks perfectly feasible.

Wellcome's reputation as a research outfit is beyond question. A number of highly distinguished figures have been involved with the

company. Sir John Vane, whose work with Wellcome on prostaglandins won him a Nobel Prize, is still on the board. Sir James Black, who discovered the two presently best-selling drugs in the world - Smith Kline's Tagamet and ICI's Inderal - has just recently left the company.

The range of products is wide, though the great bulk of sales is in ethical drugs (the rest consists of over-the-counter drugs, animal health products - through a new joint venture with ICI - and insecticides). The therapeutic areas most emphasised by the company are anti-bacterial, muscle relaxants, anti-gout drugs and - most important lately - the anti-herpes drug Zovirax.

Until recently, the profit record has been less satisfactory. Figures from stockbrokers de Zoete & Bevan indicate that whereas Wellcome's net return on capital in 1975 was 22 per cent - comparing well with Glaxo's 23 per cent and Beecham's 22 per cent - by 1981 the figure had slumped to 13 per cent, against Glaxo's 18 per cent and Beecham's 17 per cent.

The relative lack of profitability is not, perhaps, very difficult to explain. A hard-nosed attitude to profits does not sit easily with a structure of Wellcome's unique kind. Some of the company's work has had more to do with prestige than commercial success.

Prostaglandins, for instance - na-

tural compounds which control chemical reactions in the body, and in which Wellcome is among the world's leaders - have never lived up to their commercial promise of a decade or so ago.

But Wellcome does have one particularly strong commercial asset - its long-standing position in the U.S. market, through its subsidiary Burroughs Wellcome. The U.S. market is perhaps the least regulated in the world in terms of the prices which can be charged for drugs, and U.S. pharmaceutical companies are typically the world's most profitable.

This is a strength on which Wellcome has lately started to capitalise. In the year to last August pre-tax profits for the group jumped by 46 per cent to £285m, on sales up 20 per cent at £606m. Sales in the U.S. alone jumped by 29 per cent, making up nearly half of the group total.

Wellcome chairman Mr Alfred Sheppard says: "The greater part of that was the introduction of Zovirax (the anti-herpes drug) in the U.S. for a full year. The strength of the dollar helped, but wasn't nearly as important."

And in the current year? Mr Sheppard will say nothing on likely profits, beyond saying that "we are expecting a comfortable increase." City of London analysts are pencilling in a figure for group pre-tax of £110-115m.

Virgin Atlantic expects surplus

BY ANDREW FISHER

VIRGIN ATLANTIC, the cut-price transatlantic airline, is looking for a second large aircraft to lease during the peak summer months and expects to make a "considerable profit" in its first full financial year to January 31, 1986, said Mr Richard Branson, the chairman.

The airline began operations last June, Mr Branson said. It roughly broke even in the first six months. It operates a Boeing 747, chartered £159 one-way from Gatwick Airport in the UK to Newark, in the U.S., and £119 for a return booked on the day of departure.

Mr Branson said that Virgin, which has carried 270,000 passengers since it was set up, hoped

to lease another 747 or a DC10 for two or three days a week from next month. "We are pretty well sold out over the next four months to New York."

But the airline, part of the Virgin records and entertainments group, did not intend to go for major growth, he added. "Our expansion in the airline business will be slow, one step at a time."

The airline had decided to carry on for another 12 months from June, 1985, after the progress made in its first year. "We put our toe in the water and found the water was warm," Virgin still had the option of pulling out of any routes that did not make sense, he added.

It runs a daily £20 feeder ser-

vice to Maastricht in Holland and can opt out at a week's notice, if necessary. Virgin is also considering a similar service to Dublin, with the same get-out provision.

During the quiet winter months, Virgin reduced its daily North American service to two flights weekly, then cutting its losses and flying its aircraft 85 per cent full instead of only 30 per cent full. The service is now daily again.

Mr Branson reckoned demand across the Atlantic this year would be heavy. "It will be a wonderful summer on the North Atlantic." The airline had increased ticket sales to Americans and was now much better known

This year's best seller - and best buyer - in Japan...

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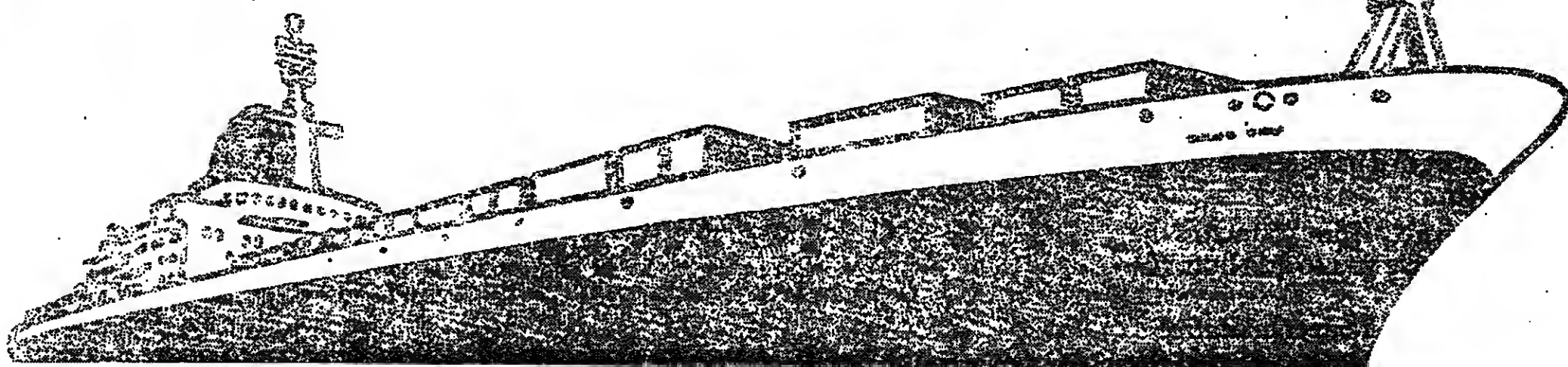
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Higher spending raises optimism in retail trade

BY ROBIN PAULEY

CONSUMERS braved the exceptionally bad spring weather, ignored the rise in mortgage interest rates and continued to spend their money in Britain's retail stores at a very brisk rate throughout April.

Figures published by the Trade and Industry Department yesterday show that the volume of retail sales rose last month to a level bettered only by last December's Christmas boom.

The provisional estimate shows that sales rose by 0.5 per cent in April. This means that the level of sales in the three months to April remained at about the same level as the previous three months and was 4 per cent higher than in the same period last year.

This year's figures are exceptionally good news for retailers. After the Christmas boom sales suffered a very sharp slump in January, but this now seems to have been due to a combination of overpaying at Christmas followed by freezing January weather and a 2 per cent point rise in interest rates rather than any reversal of the underlying propensity to spend.

Spending has been back on track

since February and by last month the seasonally adjusted index measuring the volume of retail sales was back up to 114.4 (1980=100) compared with 113.8 in March, a record 115.6 in December and 110.7 in April last year.

The good April figures confirm the underlying trend indicated in other surveys, notably the CBI-Financial Times survey of retail trades, which suggests that the outlook for traders over the next few months remains buoyant. The high level of sales in April was across all sectors, food and non-food.

Another indicator of sustained consumer spending is the continuing high levels of credit finance and bank lending to individuals.

Lisa Wood writes: The Retail Consortium, which represents the majority of Britain's retailers said last night: "The whole of retailing is looking very healthy."

Rumbelows, the electrical goods chain, said the best performing areas had been small audio units and personal stereo sets, while the John Lewis department store said sales of home furnishing goods had improved by 22.7 per cent.

NUM EXECUTIVE VOTES TO DISMISS NOTTS OFFICIAL

Breakaway nears in pit union

BY PHILIP BASSETT, LABOUR CORRESPONDENT

PROSPECTS of a breakaway union in the mining industry grew significantly closer yesterday when leaders of the National Union of Mineworkers (NUM) voted to dismiss a leading official of the union's Nottinghamshire area, which worked virtually throughout the recent year-long pit strike.

The NUM's action against Mr Roy Lynk, Notts acting general secretary, came as miners in the area voted to resist rule changes seen as reducing the area's autonomy, in the clear knowledge that they were sanctioning a breakaway.

In the absence of Mr Arthur Scargill, NUM president, who was in London for a meeting with the National Coal Board (NCB) on details of a new colliery review procedure, the union's national executive at a special meeting in Sheffield, Yorkshire, considered charges against Mr Lynk and Mr David Prendergast, the Notts area pension secretary. They together led the working miners during the strike.

The executive voted by 10 votes to nine to recommend that the union's annual conference in six weeks' time should dismiss Mr Lynk, suspending him from office for three months from the date of the conference in lieu of his period of notice. By 18 votes to one, the executive decided only to reprimand Mr Prendergast.

The vote against Mr Lynk would

probably have been larger at a normal executive meeting, since left-wingers such as Mr Oweo Briscoe from Yorkshire and Mr Emyr Williams from South Wales were not present. Mr Scargill's absence left Mr Mick McGahey, the union's vice-president, to chair the meeting, depriving him of a vote.

Mr Lynk said last night, in a bitter attack on Mr Ray Chadburn, his own area president, that if he had attended the meeting the vote would have been tied. There is no guarantee, however, that Mr Chadburn would have supported Mr Lynk.

Four specific charges of misconduct were levelled against the two officials, including that they refused to implement rule changes decided by the national union. But in a letter from the union they were due to receive at their homes today, the NUM says that the recommendations have been made because the executive has "no faith in your loyalty to the union."

Formally, the union refused to discuss the issue after the executive meeting, with Mr McGahey, saying in a statement that it was a private matter discussing confidential business which would not be disclosed.

Mr Lynk described the decision to dismiss him as "childish" and "spoilt." He made it clear both that he would be taking up his seat on the union's national executive - to

which he had been voted by NUM members in his area - after the conference in July.

He indicated that, when his period of threatened suspension expired, he would remain in his post by simply continuing to deduct his salary, roughly £17,500, from area subscriptions before passing them to national level.

Both officials insisted publicly that the decision did not necessarily bring the breakaway union any nearer. But they said that Notts miners and other union areas to which they are allied, including South Derbyshire, Leicestershire and the union's white-collar (non-manual) section, would support them.

Privately it is recognised in the union that if, as is likely, the decision is ratified by a simple majority of the left-dominated conference in July, it will further divide the union. A high court writ seeking extensive details of voting in the re-run election for the general secretary of the Transport and General Workers' Union - and in last year's disputed election - was served on the union last night by one of its members.

Among the claims is one for an injunction stopping the union from declaring a winner until details of the voting in both elections has been made known to members at branch levels.

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Volvo importer sees pre-tax profits slip

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

VOLVO Concessionaires, which imports Volvo cars to Britain, suffered from the extremely competitive conditions in the UK market last year and its pre-tax profit fell by 15 per cent, from £27.75m to £23.54m.

The company, however, maintained its dividend to the parent group, Lex Service, at £13m.

Volvo Concessionaires' net profit was nearly unchanged at £13.15m for 1984 against £13.62m the previous year. In 1983 there was an extraordinary charge of £1.97m while last year there was an extraordinary credit of £1m.

The group's turnover rose from £314.4m to £322m last year.

The directors point out that the UK new car market last year was even more competitive than in 1983, "with the major manufacturers fighting to achieve market share objectives through intense promotional activities and high discounting at the retail level."

Concessionaires, they say, refused to become embroiled in the worst excesses of the "disorderly market" to prevent Volvo used car values falling and thus to protect existing customers.

As a result its new car registrations fell by 3.6 per cent from the

cord 1983 level to 59,072, to give a marginally lower market share of 3.38 per cent against 3.42 per cent in 1983.

Mr Peter Turnbull, the joint chairman whose salary for 1984 from Concessionaires was £71,000, compared with an annual rate of £62,400 for the five months he was in office in 1983, has forecast that car sales this year will be £1,000.

The accounts show that Transflex Services - a truck contract hire company which is 50 per cent owned by Lex Service and 50 per cent by the Lombard North Central finance house, but is listed as a Volvo Concessionaires subsidiary - suffered a loss of £1.373m last year against a profit of £1.5m in 1983.

Lex Vehicle Leasing, another Concessionaires subsidiary, increased its profit from £923,000 in 1983 to £2,951m last year.

Concessionaires will spend £11m during the coming two years on computer systems development and the expansion of its two import centres (Ipswich, Suffolk, and Immingham, Humberside), its dealer training centre and the head office at High Wycombe, Buckinghamshire.

Ford's van and truck output slips by 7%

BY OUR MOTOR INDUSTRY CORRESPONDENT

FORD'S POSITION as leading commercial vehicle producer in the UK is under threat from BL, the state-owned group.

In the first quarter of 1985 Ford's output fell by 7 per cent, or 2,093 vehicles, compared with the same months of 1984, to 27,831. Meanwhile, BL's companies all improved production from the first quarter of last year, and the group total moved ahead by 11.3 per cent, or 3,441 vehicles, to 34,034.

BL lost commercial vehicle production leadership to Ford in 1978. This year the state-owned company has the benefit of new Austin Rover vans and Land Rover four-wheel-drive vehicles as well as an improved Sherpa van range from Freight Rover at the lighter end of the market.

Leyland, the heavy vehicle producer, is beginning to feel the positive effects on output of the Roadrunner, its new entrant in the 8 to 10 tonnes sector, which accounts for one-third of demand in Britain for trucks of more than 3.5 tonnes gross weight.

In contrast, Ford's Cargo medium and heavy truck range has been losing market share in the UK, while the Transit van, for many years Britain's best-selling commercial vehicle, is now 21 years old and is expected to be replaced next year. The changeover to a new model will inevitably cut back Ford's van output.

In volume terms, the major contribution to BL's recovery in commercial vehicle output in the first quarter came from Austin Rover. The new Maestro van, launched last October to replace the old Morris van which was based on the Fiat car, has boosted the Austin Rover total substantially by 938 vehicles, or 15.1 per cent.

However, Leyland Vehicles, the heavy truck and bus subsidiary, showed the biggest percentage gain with output up by 17.7 per cent or 602 vehicles to 3,996 in the quarter.

General Motors, the Bedford group, while well below BL and Ford so far this year, eventually might be a serious contender for top place in the UK production league.

Output of its new Midi van, based on an Isuzu vehicle and incorporat-

UK COMMERCIAL VEHICLE PRODUCTION (First Quarter)	
Austin Rover	5,201
Land Rover	7,139
Freight Rover	4,962
Leyland	3,204
BL Total	21,266
Ford	27,831
GM (Bedford)	15,736
Renault	79
EW	636
Foden	212
Healey-Dorrie	246
Westwood-Dorrie	101
Renault Truck Ltd	1,827
Sutton Atkinson	389
Others	77
Total	68,852

Source: SMMT Monthly Statistical Review

ing Japanese engine and gearbox, is only just beginning to pick up, and GM hopes to produce it at an annual rate of 20,000.

GM is also considering producing at the Bedford van plant a micro van derived from a Suzuki vehicle. GM has shareholdings in both Suzuki and Isuzu and by building the vans in Britain can put them into Continental markets such as France and Italy so far closed to Japanese commercial vehicles.

Reports from Tokyo suggest that the micro van in which GM is interested is the "Every," which in Japan is equipped with an engine of only 550cc, but which would have an 800cc unit in the UK.

According to the statistics from the Society of Motor Manufacturers and Traders' Monthly Statistical Review, most of the UK-based heavy truck producers increased output in the first quarter compared with the same period of 1984. The exception was Foden, owned by Paccar of the U.S., with production down by 54 vehicles or 25.5 per cent to 158.

ERF showed the biggest percentage gain, by 37 per cent to 597 trucks, closely followed by Renault Trucks Industries, the Renault-Dodge concern, with a jump of 31 per cent to 1,347 vehicles.

Total commercial vehicle output in the UK remains exceptionally depressed because of lack of export demand. In the first quarter production was down by 112 vehicles or 0.16 per cent from the 1984 level - and 1984 output proved to be the worst for 35 years.

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*Source: The Society of Motor Manufacturers and Traders, U.K. registrations.

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THE 1985 TL.

FINANCIAL TIMES SURVEY

Wednesday May 15 1985

مكتبة الشرق

Brewing

Liberalisation of the licensing laws in England and Wales is needed, the brewers argue, if they are to compete fully with other leisure outlets. Large sums are already being spent on the renovation of pubs to widen their appeal.

The customer calls the tune

BY LISA WOOD

"THE CRUCIAL issue for the industry at present is the proposed change in licensing laws," says Mr Tony Simmonds-Gooding, managing director of Whitbread, Britain's third largest brewer.

Mr Simmonds-Gooding, chairman of the Field-Law Action Group, an umbrella organisation campaigning for flexible public hours, explains the importance of such a change: "If more flexible hours are introduced our major assets—the pubs—will be freed and it could revolutionise the business."

Most flexible licensing laws, which could be based on the Scottish model introduced eight years ago with no apparent harmful effects, are being examined by the Government in a wider review which includes the liberalisation of restrictions on shop hours and Sunday trading.

British publicans have for some time been experimenting with opening their pubs outside the official licensing hours, one problem in the Midlands doing a flourishing trade serving a local factory with take-out breakfasts. But the industry

believes a total re-vamping of licence laws would give the industry a much needed boost in its total retailing efforts.

Not that more flexible hours are seen as a panacea for falling beer consumption. Such a move would not necessarily lead to higher volume consumption of beer, according to Edinburgh-based stockbrokers, Wood Mackenzie. Rather, as it pointed out in a recent report on the industry, "It represents a retailing opportunity rather than a chance to sell more beer."

Grasping at this nettle of retailing is the major pre-occupation of the brewers, who, as Mr Simmonds-Gooding drily said have not been brilliant in the past at catering and at moving into new consumer-orientated areas. For the past few years has seen a mini-revolution in the nation's consumer habits which has confronted the industry with problems to be solved and at the same time a whole range of opportunities to be seized. These include:

● Beer sales have fallen by around 12 per cent since 1979, the peak volume year. UK beer production in 1984 was 38.7m barrels, a decline of 0.4 per cent on 1983's level, and there are few signs that demand will pick up in the near future.

● Increased demand by consumers for a broader range of drinks. Wine sales today account for around 17 per cent of the total drinks market, four times that of a decade ago.

● Greater drinking within the home, which is providing continued upward sales in the take-home market, now accounting for around 15 per cent of the whole beer market.

● Buoyant consumer spending being directed into eating-out, with women gaining greater confidence in using their spending power to demand improved facilities. One recent survey in the City of London estimated that around 37 per cent of drinkers at lunchtime were women.

The brewers, whose ranks range from Bass, with 7,400 pubs to smaller regionally-based brewers such as Shepherd Neame, with 243 tied outlets in Kent, have responded to these changed market conditions with a variety of strategies.

● Pub renovation
● A switch in capital investment from new plant into pub renovation with many of the major brewers investing heavily in in-house restaurants such as Whitbread with its Pizza Hut units, Beefeater, Roast Inns and Beefeaters. Catering now accounts for some 20 per cent of turnover in many London pubs.

possible cuts, with a loss of jobs, at Matthew Brown, the Blackburn-based brewer which is the subject of a contested takeover bid by Scottish and Newcastle now being scrutinised by the Monopolies and Mergers Commission inquiry.

● The development of take-home sales with extension, particularly by major brewers such as Bass and Whitbread of off-licence chains.

● The active pursuit of other businesses in the general leisure market. The major brewers, it is now estimated, earn only 49 per cent of trading profit from brewing and pub retailing with companies such as Guinness looking to boost revenue in the U.S.

The huge investment pouring into public houses is the most conspicuous evidence of how the brewers are trying to woo customers back into their pubs, some 47,000 of which are brewery-owned.

In the next three years brewers are forecast to spend some £2m on their retail estates. Mr Ewart Boddington, chairman of the Brewers' Society, in announcing the investment, some 80 per cent of the total industry spend, said: "These figures illustrate very clearly the emphasis now being placed on pub improvements and provide abundant evidence of the brewing industry's determination to restore the pub to popularity—and to profitability."

Mr Boddington made a strong qualification however in detailing how the pub must compete for trade. "A reform of licensing laws," he said "is essential if many pubs are not to slip slowly into oblivion."

The futuristic interior of the Lord Darnley in Edinburgh, one of Scottish & Newcastle's 295 Welcome Inns in Scotland

UK beer market

	Total production bulk barrels (m)	Ales & stouts	Lager as a % of market	Yr-on- yr. vol. change %
1979	41.19	29.26	11.99	29.1
1980	39.61	27.45	12.16	30.7
1981	37.71	26.02	11.69	31.0
1982	36.33	24.48	12.05	33.0
1983	36.86	25.63	13.23	35.9
1984	36.72	22.44	14.28	28.9

survey by the Hotel and Catering Board which suggested that some 6,500 pubs closed during the recession. Unemployment has struck hard in areas of traditional heavy consumption of beer.

In seeking to improve the return on these pub assets and cultivate growth in non-beer related areas brewers have enlisted market researchers and professional design teams and hired a new breed of managers drawn from more general retailing backgrounds.

The result has been a flowering of pub design and in many cases, strong market segmentation with cocktail bars, for example, boosting efforts to sell more expensive drinks. Host, the Grand Metropolitan subsidiary which looks after the group's managed houses, is among the most radical in this area with its 14-odd "themed" pubs which are being introduced through-out all the managed estate.

It is a trend many expect to

gain momentum, although the City wryly comments that Bass, with impressive increases in retailing profits has not been particularly visible in pioneering "theme" outlets but rather allowed its local management to develop outlets in the mainstream of pub activity. "So far this policy has proved the most successful of the brewers," says Wood Mackenzie.

For the brewers finding new concepts in retailing that will enable their premises to compete with other leisure outlets while retaining their traditional appeal is tricky. Nor do publicans claim they have developed the existing market to its full extent. "There is still a lot to be done with the basic pub widening its appeal to all sections of the community," says Mr Mike Foster, marketing director of Courage, the Imperial group subsidiary.

In this drive to update the pub many of the major brewers—whose ranks are made up of Bass, Allied Breweries, Whit-

bread, Courage, Scottish & Newcastle and Grand Metropolitan's Watney Combe and Reid have enlisted new entrepreneurs.

Richard Branson, president of the Virgin Records empire and Virgin Atlantic Airways last November announced a £3m investment in a chain of pubs in London on a long lease from Watney Combe Reid. "We were wooed by several brewers," said Mr Branson in announcing the first new outlet, the Princess Victoria.

It is a development in the industry that many see as accelerating as brewers look for new ideas. It is all part of what Mr Foster calls the forging of new partnerships between brewer and tenant. Wooing the consumer is forcing other fundamental changes on the industry. This is illustrated most sharply in the lager market which has grown from around 29 per cent of the beer market in 1979 to nearly 35 per cent in 1984 and is tipped to reach 50 per cent by the end of the decade.

The repercussions of this growth have been most severe among the regional brewers who, with about 15 per cent of the ale market have traditionally concentrated on their real ales. Attempts to introduce their own lagers have been often unsuccessful.

"We devoted a considerable time and money to the promotion of a house draught lager, Norseman, but we could not stand up in the market place facts."

against the heavily promoted national brands," says Mr Peter Hayward, commercial director of Vaux, the Sunderland-based brewer.

The drive to become consumer orientated and face up to the strong competition from the national brands has led some regional brewers to reconsider their whole brewing strategy. Leicester-based Everards Brewery has pruned its own brewing output and is looking to market more and more "guest" beers, that is other brewers' brands.

"The total market for beer is not going to increase in the foreseeable future," says Mr Anthony Morse, managing director of Everards. "We have to make money by selling other things. We have just bought Rutland Vintners, a local wine and spirits company. We aim to sell the public what they want, be that wine, spirits or cider."

This form of consumer orientation is not, however, generally favoured by regional brewers although many are copying the national brewers in purchasing wine and spirits distribution companies. "The retail proposition should logically lead to some brewers totally closing their brewing capacity," said Mr John Dunsmore, of stockbrokers, Wood Mackenzie.

Arguably those who should do that are the regional brewers who are not strong on lager. But the culture, that is family ownership, outweighs the economic facts.

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Brewing 2

Lisa Wood on the big brewers' need to spot changing trends among consumers

Retailing opportunities of pubs explored

"BREWERS DO not change public tastes," said Sir Derrick Holden Brown, chairman of Allied Lyons. "They observe what is happening in the market and respond to that change and put their money where they see growth."

In the last few years Britain's "big six" brewers — Bass, Allied Breweries, Grand Metropolitan, Whitbread, Courage and Scottish & Newcastle — have shown themselves to be more adroit in adapting to change than some of their regionally-based brethren.

On the other hand, beer market share lost to regional companies appears to be coming back to the major companies through sensitive policies and, secondly, they have benefited from the explosion of interest in lager with the important nationally-promoted brands dominating the market. The "big six" in the face of static total beer sales have also plunged into diversifications. A recent report from Wood Mackenzie, the Edinburgh-based stockbrokers estimates that currently only 48 per cent of trading profit of the six major companies comes from brewing and pub retailing.

Continued diversification is likely to continue apace while, at the same time, companies explore the retailing opportunities offered by their public houses. For it is the major companies which are forging ahead most aggressively in looking for profit growth in non-beer related activities in the pub.

If retailing is the buzz word of the whole industry there are, between the brewers strategies in the retailing sector.

Bass, the largest brewer with about 21 per cent of the total beer market has been increasing its share partly because of the success of its lager brands with Carling Black Label, the market

leader, taking some 16 per cent of the buoyant lager market. Among the more cautious of the brewers, Bass, with some 7,898 pubs (compared with over 8,800 in 1977) did not go as far along the road to centralisation as other brewers. Local management have been successfully allowed to develop outlets in the mainstream of pub activity and there has not been the same degree of centralised "theming."

The company's acquisition policy has been more conservative than those of others with the leisure division, contributing 16 per cent of trading profit, including Crest Hotels, Coral bingo and betting, Pontin's holiday camps and most recently, a 25 per cent stake in Horizon, the travel company. The group has strong representation in the wine and spirits division with nearly 1,000 off-licences trading under Augustus Barnett and Galleon Wine.

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Central TV area it is understood that this brand, brewed under license has won a six per cent lager market share with very little substitution from the company's other lager products. Grand Metropolitan's brewing subsidiary, Watney, Mann and Truman owns some 6,500 public houses and enjoys around an 11 per cent share of the beer market with its most notable lager success being Foster's which quickly won market share after its launch two years ago. The group's managed houses, operated by the Host Group, have pioneered many of the retailing changes in the industry with 14 "themed" designs for pubs.

GRAND METROPOLITAN

Host has been the most aggressive in the industry in segmenting its market with varying emphasis on young people, women, families, facilities and food. The group has also been among the first to experiment with its TAKES outlets — with convenience shopping within off-licences.

Scottish & Newcastle, with some 1,500 pubs is more heavily dependent on the free trade than most of its major competitors. Attempts however to extend its tied estate, last year with a bid for J. Cameron, a Hartlepool-based brewer and most recently a £98m bid for Matthew Brown, the Blackburn-based brewer, have been subject to referrals to the Monopolies and Mergers Commission.

Mr Patrick Townsend, the Matthew Brown chairman recently said: "They (S & N) should address the real issue which for them is one of diversification." S & N however has said it wants to remedy its dependence on the free trade before further diversification. S & N's existing non-brewing interests include the successful Thisle chain of hotels.



For short-haul local deliveries Shire horses are still a customary sight. Above are two of Whitbread Brewery's 16 working Shire horses which deliver to pubs within a five mile radius of their brewery in Chiswell Street, London. In addition to their delivery work six of them pull the Lord Mayor's Coach every November in the Lord Mayor's Parade. And at coronations or jubilee celebrations Whitbread horses pull the oldest coach in the country which carries the Speaker of the House of Commons



Whitbread, with around 12 per cent of the beer market and some 6,560 pubs has been among the leaders in developing retail opportunities in its pub estate and in new restaurant and entertainment businesses including discotheques. Non-beer and pub related activities now account for about 40 per cent of group profits.

A key strategy for the group has been expansion in the U.S. where acquisitions include Julius Wile, a wines and spirits distributor. This year however the \$100m acquisition of Buckingham Corporation, a drinks distributor, from Beattie Foods has led to a \$225m (£180m) compensation claim.

Whitbread is seeking the damages through two lawsuits over the termination of the distribution rights to Mouton Cadet wines and Finlandia Vodka in the U.S. which had been held by Buckingham at the time of the acquisition. The Whitbread Investment Company recently increased its holding in Matthew Brown in an

apparent attempt to help the company fight-off a bid from S & N. It is argued by some that the investigation by the Monopolies and Mergers Commission could scrutinise the workings of the investment company, part of the Whitbread group, which has also in the past come to the aid of small breweries fighting off take-over bids.



Courage, with about nine per cent of the beer market is part of the Imperial Group's leisure group. Courage concentrates on production and related activities such as the take-home trade while Imperial Leisure and Retailing looks after the managed houses, a re-organisation which the company argues is working well.

Courage has taken some time to get its lager portfolio into place with a priority being to gain "free" confidence for Hofmeister and could have a new product up its sleeve, Courage believes that it has done more than most brewers to address the problems of over-capacity.

James Buchan gives the City's view of the big six Lager revives interest

THE BREWING sector has not been in favour of late. The FT-Actuaries Brewers and Distillers Index, the best measure of the brewers' stock market performance, is at its lowest level relative to the market since 1981.

The recent dullness has more to do with cigarettes than beer rather worries about the U.S. cigarette operations of Grand Metropolitan, the heavy-weight in the sector. But even in the present rather weak bull market, the traditional defensiveness of the brewers, as companies who can maintain earnings in a recession, are at a discount.

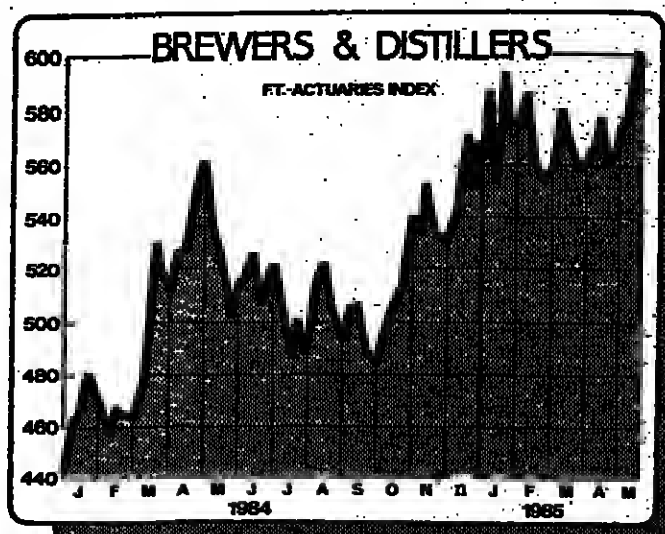
There has been sporadic activity. Guinness has enjoyed a tremendous return to favour in the City since its purchase of Neighbourhood Stores at the end of last year. The share has been under a cloud for years, shadowed by memories of headlong diversification in the 1970s; but the City has now decided that under Mr Ernest Saunders the group has a coherent strategy based on health, retailing and publishing beside the famous stout.

The hostile bid for Matthew Brown, the Blackburn brewer, from Scottish & Newcastle gave a fillip to the regionals in March, but the bid has since been referred to the Monopolies Commission, the Matthew Brown share price has fallen back and even S & N is finding the market heavy going.

S & N is in a strange position, boxed between the majors and the regional brewers, with excessive exposure to the free and take-home trade and enjoying only a small tied estate. S & N badly needs an acquisition to turn its good profit recovery of the last couple of years into growth. But this is S & N's second run-in with the commission since its agreed offer for J. W. Cameron of Hartlepool last year and the City fears that a second failure might lead S & N into something desperate.

Curiously, the outlook for the brewers as a whole is not too bad. While ale drinking is still on the way down, and there may be more breweries to close after Whitbread's at Luton and Northern Foods' at Hull, there is good growth in lager.

Consumer spending is expected to show another decent increase this year, which should



mean trading up to higher value wines as well as lager, and though the brewers continue to be hard hit by high unemployment, at least they can, this year, recoup some of the volume lost during the miners' strike.

In the longer term, any loosening of licensing hours should turn the brewers' managed houses into much more valuable propositions. For the moment, the City is fixed on the short-term possibilities of lager. This has merely increased the attractions of Bass, which has not only a highly successful lager in Carling Black Label but is squeezing quite extraordinary profits out of it.

Allied-Lyons has suffered in comparison, though it has moved to repair relations with the City which had become both distant and blurred. Allied's interim results this month will show whether a better performance by Castlemeane lager can remove the City's prejudice against its brands.

While the key to Allied's recovery lies in its brewing division, the group is even less of a "pure" brewer than any of the other majors, all of whom now derive less than half trading profits from beer and pubs. Leaving lager aside, the City naturally concentrates on

the fruits of the industry diversification that began in the 1970s and comprises hotels, leisure and expansion in the U.S.

In the past few weeks, there has been a sheet of stock-brokers' circulars recommending GrandMet. The stock looks cheap and brokers would not be doing their job if they did not look beyond what are bound to be poor interim results this month. But though the UK brewing interests must eventually profit from an attack on their cost base, it is not at all clear that Liggett — the generic cigarettes business in the U.S. — will halt its free fall in a very competitive market.

Whitbread's loss of two franchises from its U.S. drinks business, Buckingham Corp, has badly affected sentiment. This is not because the brands were of overriding importance — though Mouton Cadet seemed to have a bright future — but more as evidence of a shipwrecked approach.

Equally, Bass has hardly convinced anybody with its diversification — least of all into the fashionable holiday business. But the City has been deeply impressed by the group's effort, less ability to add volume in a trading profits from beer and pubs. Leaving lager aside, the City naturally concentrates on

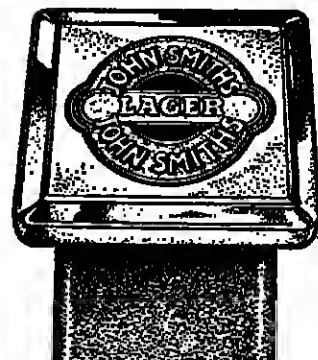
Courage. Going from strength to strength.



Simonds Bitter O.G. 1032°
Our session drinking ale, especially strong in South Wales.



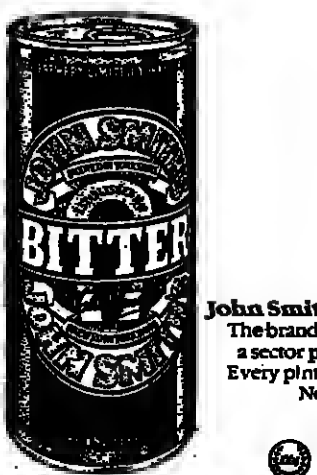
Hofmeister O.G. 1036°
Already one of the Big 5 lager brands, the 'Follow the Bear' advertising is helping to generate a volume growth of over 20% per annum.



John Smith's Lager O.G. 1036°
Successfully launched in the North and West, this new lager combines the brewing skills and powerful heritage of John Smith's.



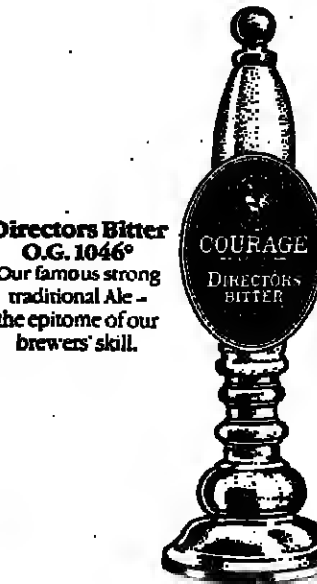
John Smith's Yorkshire Bitter O.G. 1036°
Our major volume brand in Yorkshire and now a free trade success in the South of England.



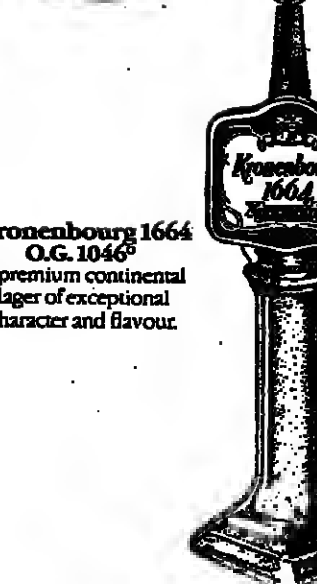
John Smith's Bitter O.G. 1039°
The brand-leading Casked Bitter, a sector pioneered by Courage. Every pint is brewed at Tadcaster, North Yorkshire.



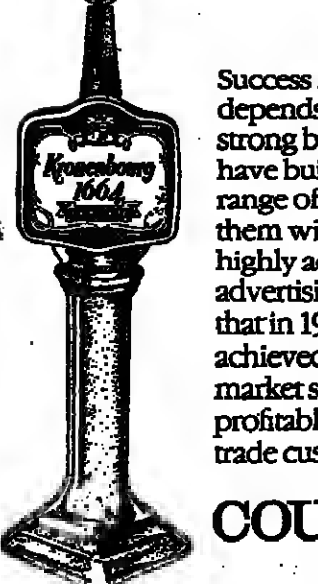
Courage Best Bitter O.G. 1039°
The most popular Cask Conditioned Bitter in the South of England, and winner of the 1983 Brewex Award in its category.



Directors Bitter O.G. 1046°
Our famous strong traditional Ale — the epitome of our brewers' skill.



Kronenbourg 1664 O.G. 1046°
A premium continental lager of exceptional character and flavour.



Success in the market place depends on a portfolio of strong brands. Courage have built a comprehensive range of brands and back them with the power of highly acclaimed, effective advertising. It is no surprise that in 1984 Courage achieved its highest ever market share, generating profitable growth for our trade customers.

COURAGE

UK industry plans its own exhibition

BRITAIN'S brewing industry is to organise a new trade exhibition, Brew '87 in two years' time. The industry already has one trade show, Brewex, organised by Industrial and Trade Fairs.

The Brew '87 show will be held in London at Earls Court while Brewex continues its usual venue at the NEC in Birmingham.

The new exhibition is being organised by Brewing Technology Services, a specially formed company jointly owned by all the major brewing institutions. These include the Allied Brewery Traders Association, representing suppliers and a formidable combination of the Incorporated Brewers Guild, the Institute of Brewing and some heavy-weight financial support from the Brewers Society.

There has been some concern within the industry at the linking of Brewex with the bigger Pakex exhibition and at the overall cost.

The next Pakex (and therefore Brewex) is in 1986, only 11 months after the massive Interbran Exhibition now held every four years in Munich. The cost of attending both so soon after each other could cripple many British companies, a problem which the brewing industry itself has decided to sidestep by holding its own Brew '87.

"The present pace of business and the rapid changes in the brewing industry's economics require a more direct control over every aspect of the exhibition's organisation," says Mr J. Harrington Griffiths, executive director at Brewing Technology Services.

"Brew '87 has this control in its board of directors who are themselves directors of supplying companies, brewery companies and brewers and production managers."

"Almost half the available space is booked. It comes at the right time in relation to other brewing exhibitions, and it has the support of every side of the industry who will own it and run it for the industry."

Meanwhile, "More than three-quarters of the space at Brewex has now been allocated," says Terry Brandon speaking for W. Cameron of Hartlepool last year and the City fears that a second failure might lead S & N into something desperate.

"It was at the overwhelming request of 1983 exhibitors that we twinned Pakex with Brewex, again because in 1983, 17,000 visitors on the Pakex side also came to Brewex," he added.



Brewex have also decided to introduce new features to this exhibition. They will have a new "soft drinks centre" which "offers an ideal opportunity for soft drinks manufacturers to sell direct to brewers." Brewex has also managed to attract sponsorship from the National Association of Soft Drinks Manufacturers and also the Process Plant Association.

"Overseas companies have been particularly quick off the mark to reserve stands," says Mr Brandon. "We have a strong presence from the Netherlands and plenty of interest from the whole of Europe and the U.S. Our reservations are well ahead of schedule even compared with the record-breaking 1983 event."

TF are also optimistic about the response they got from visiting Interbran which took place in Munich earlier this month. "Interbran has been highly successful for us in the way of promotion," Mr Brandon added.

"Brewex has now been going for over 100 years and really we're not too concerned about Brew '87, because we don't think it has made that much difference to us."

Elisabeth Baker

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Carlsberg
Probably the best lager in the world.

Lisa Wood looks at how the brewers in the regions are faring

Tough competition for ale portfolios

"THE PREOCCUPATION of regional brewers is the strength of their ale brands," says Mr David Thompson, deputy managing director of Wolverhampton and Dudley, the Wolverhampton-based regional brewer. "The issue is whether or not they can sustain a strong position in the market for those brands with the onset of lager and the importance of nationally-promoted brands."

Mr Thompson continued: "All the independent regional brewers are having to work very hard to keep their beer brands moving in the face of this competition from the big nationally-promoted brands."

It is not just the rise in consumption of lager which is causing concern among regional brewers, one of whom, Matthew Brown, the Blackburn-based brewer, has been contested a takeover bid from Scottish & Newcastle, the result being an investigation by the Monopolies and Mergers Commission.

Several factors have contributed to the under-performance of regional brewers relative to the national companies making some, it is argued, vulnerable to takeover bids.

● The growth in the take-home trade—some 15 per cent of all beer sales—with only a few of the larger independent brewers having access to national distribution to their brands.

● Competition from the national brewers in the highly competitive free trade.

● High unemployment in areas of traditional heavy consumption of beer with the recent miners strike estimated to have cut more than 1 per cent of 1984 production figures.

● Less experience in the growing "added value" areas such as catering.

The so-called 80-odd regional brewers, many still family-controlled, built their reputations in the 1970s on the strength of their ale portfolios. Their fortunes blossomed in the 1970s when consumers rejected the big nationally-promoted brands, such as Watney Red and, inspired by CAMRA, the real ale pressure group, turned to traditional regional brands.

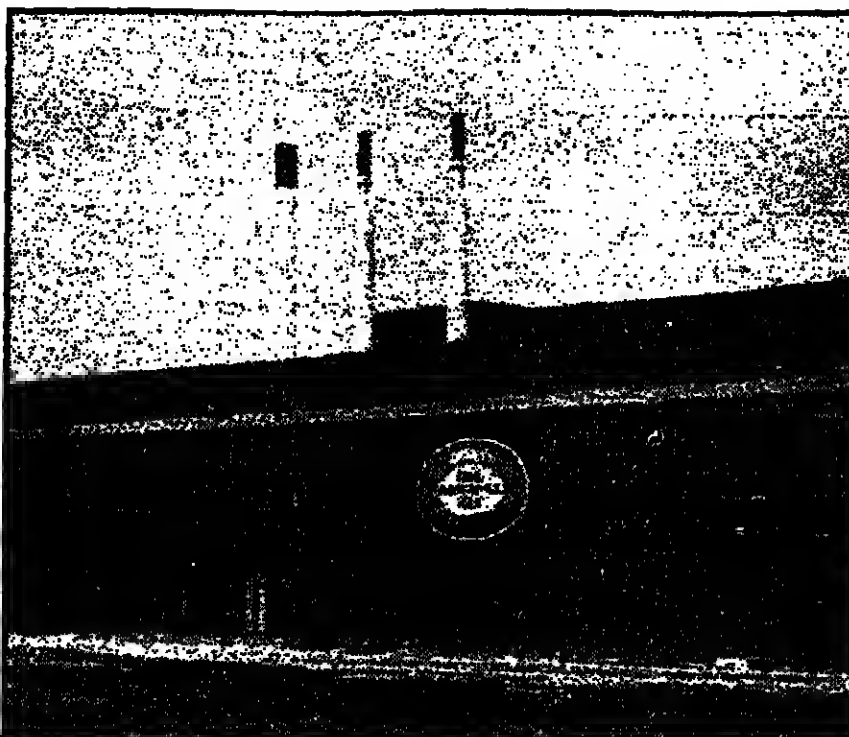
Feasibility of the regions was also helped by the fact that industrial relations were more stable than among the national brewers, smaller catchment areas meant lower distribution costs and prices were often substantially cheaper than national brands.

However, the big national brewers, whose ranks include Bass, Whitbread, Allied Breweries, Courage, Scott's & Newcastle and Watney Mann & Truman hit back and proved adept at developing ales with a regional identity with many, as in the case of Courage's John Smith's Yorkshire bitter, giving such brands national distribution.

As important a development was the upsurge in lager consumption—lager now accounting for around 39 per cent of the total market. It was a market trend most quickly spotted—and some say, bolstered—by the national companies who, it is estimated, command more than 80 per cent of the lager market with their brands such as Carling Black Label, Tennent, Heineken, Skol and Foster's most of which are brewed under licence from foreign producers.

Some regional brewers have abandoned the brewing of their own lager. "We devoted a considerable amount of time and money to the promotion of Norwester, a house lager, but we could not stand up in the market place," said Mr Peter Heyward, commercial director of Vaux, the Sunderland-based brewer.

Earlier this year, Vaux announced it was to market Tuborg, a nationally advertised brand owned by Tuborg of Denmark. A pre-requisite to



Everards Brewery's Tiger brewery in Burton-on-Trent is to become Britain's first working brewery museum. In contrast (above) is Everards' new brewhouse near Leicester which was opened in March.

few, including Greenall Whitely, the largest independent brewer and Matthew Brown successfully developing their own lager products. For many of the other independent brewers lager poses a threat to their substantial investment in ale brands.

Not all regional brewers however want to make a large capital investment in lager plant and many such as Manchester-based Roddingtons continue to buy in brands from the national firms potentially cutting profit margins and developing surplus capacity in their own plants as volume sales of lager increase.

Some brewers however argue that with a considerable excess capacity of lager in the market it makes sense at present to buy in brands. Wolverhampton and Dudley for example has a trading agreement with Harp, the Arthur Guinness subsidiary, with a long-term option to brew.

"With an over-capacity in the industry the opportunity to buy at marginal costs is very good," said Mr Thompson. "The capital that would be used to build a lager brewery can be used more usefully elsewhere at present."

It is not a market that the company is shy of, however.

Overcapacity, or the need to push volume of beer was a factor in the recent £42m acquisition by Mansfield Brewery of the Hull-based North Country Brewery. The deal, which went through after Northern Foods announced it was to close the subsidiary's brewing capacity, will double the number of Mansfield pubs in the East Midlands and Humberside to 400.

Mansfield, with investment of £36m in its retail outlets which include a health club, has been among the most aggressive of the medium-sized regional brewers in addressing the general problems facing the industry.

The company's strategy has included active investigation of the take-home market with substantial investment in new plant at its Mansfield soft drinks subsidiary. Much of the company's trade however is directed towards the own-label business which, while providing volume, exposes the company to the cut-throat grocery business.

Wolverhampton and Dudley does not have any theme pubs: "The thing that makes a pub successful is if it is in a good location, has a good licensee and good products," said Mr Thompson. "Fun pubs are ephemeral and require a high level of capital investment. We reject the idea of a segmentation of the consumer market because you exclude and make uncomfortable those people who do not fit that market niche."

Such a management philosophy has been wholeheartedly taken up by companies such as Wolverhampton and Dudley and Matthew Brown, the Blackburn brewer. "Our expertise is in running pubs," said Mr Thompson. "We do not understand the London market and the own-label business does not fit into our strategy for strong brands."

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Questions

Mr Neil Scorse, of stock brokers, Fielding Newman and Smith, says: "The rise in consumption of lager raises questions about the longer-term future of regional companies whose businesses are so closely aligned with regional ales."

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Optimism continues among mini-brewers

Welcomed niche for beer drinkers

THE STORIES of ruin and wretchedness surrounding 28 small independent breweries that failed in the last two years are enough to freeze the blood of any bright-eyed entrepreneur.

"There is a growing feeling that only companies which produce at least 25 barrels a week will survive," says Brian Glover, author of *Small Beer*, a volume about them to be published next year. "The rest will perish," he adds.

Yet careful research shows that while 12 mini-breweries have gone out of business since April last year, 17 started up in the same period and another crop of five—including the Maiden Oak in Londonderry, the Westford Arms in Suffolk and one in Hastings so new it had yet to be named—are about to burst on the scene. Not only that but the wave has now rolled across the Atlantic to Canada and the States, giving British mini-brewery manufacturers a massive potential export market.

A revolution

The first "new" small brewery was the Selby a revived family brewery set up in 1972. Six more arrived during the next four years before things really started hotting up with a further six set up in 1977 and seven in 1978.

It was a revolution that peaked with 17 being started in 1979, 19 in 1980, 36 in 1981 and 37 in 1982. But then the bubble burst in the icy wind of recession and 28 have closed down over the last two years.

Nevertheless, this last year has seen a brewery set up for every one that closed down—and more. Meanwhile, copycat homebrew pubs owned by the makers, have grown to 30 per cent of the sector with six launched in the last few months and more to come. Also left a down-falling like the Little Brewery whose marketing skills did not match the deliciousness of their beer—have made a comeback in slightly different guises. But there are now about 120 pure wholesaling small independents in the UK and more than 70 pub breweries.

The present struggles of the mini-brewery are symptomatic of problems that now beset the industry as a whole. With an estimated 15 per cent over-capacity national and regional brewers are locked in fierce competition—and, vying with each other to reduce every corner of the so-called free trade they often unwittingly trample a tiny independent between them.

Smarting under the lash is Alice Brewery at Inverness.

Scotland, where two others, Devanha and Hawkhill have gone down this year already. "If we'd known what they were going to do, we'd have asked them how much they would pay us not to go into business—and made a fortune," says production director Roger Duncan.

Hawkhill director Bob Welsh says: "The main reason for our failure was that we weren't able to market our products properly—we relied on the so-called free trade and we just didn't get it."

Of course, 80 per cent of pubs are totally out of bounds for small independents because they are tied to the breweries which own them. Most successful small breweries like Archers, Ringwood and the aggressive Banks and Taylor are quickly getting wise to this, buying up pubs for all they're worth. Many newcomers too are taking the wise option of a homebrew pub or links with a wholesaler.

In contrast, Peter Austin, chairman of the Small Independent Brewers' Association, some

of whose members do not have two pubs to rub together is fighting for implementation of new EEC regulations which allow a tied publican to take another brewer's beer as long as it is "different in appearance colour and taste." But it would take a brave publican to front his tied brewery, and British brewers have, it seems, scant regard for tweedings from Brussels.

Yet despite their problems the new small independents have found a niche in the British beer market. Apart from keeping larger breweries on their toes by scooting local monopolies, they have also won the heart of the beer drinkers pressure group, CAMRA (Campaign for Real Ale). Prices are down through healthy competition in West Country, Midlands and South-East strongholds. They have also managed to cling on through providing a better service to the free trade—bringing supplies out, day or night, and learning how to market their beer.

Most small brewers' view of

their own achievement is rather down to earth. "We just hope to stay in business," says Dave Sutler of the Ashford Brewery in Kent. And certainly larger brewers don't seem to see them as serious competition. They patronise us and treat us as a bit of a joke," he adds.

Yet the more successful are gradually being accepted by and integrated into the general brewing community by developing interlinks with major breweries. Archers for example and Taylor have just received their second from Charles Wells.

"Some people think it unusual we should help a small brewery," says Wells' chief executive Oliver Wells. "But in reality it would be a long time before they could become our serious rivals."

Elisabeth Baker

Editor of *The Grist*, magazine for the small independent brewer worldwide.

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Brewing 4

Brewers now devote more attention to export markets, says Lisa Wood

More barrels roll out to the U.S.

THROUGHOUT MUCH of the world imported drinks have a strong social cachet. British brewers, while still firmly of the opinion that exports will solve few of the problems of over-capacity in the industry, have recently started to investigate such markets, in particular the U.S.

For while sales of U.S. domestically-produced beers are static, imports are estimated to be growing at around 10 per cent a year, albeit from a small base, currently taking some five per cent of sales.

Sales of UK beers are still very small, taking around 2.5 per cent of the imported market which is dominated by "blonde," that is lager-style products, such as Heineken.

U.S. BEER IMPORTS (U.S. bulk barrels)	1983	1984
Netherlands	2.4	2.6
Canada	1.8	1.9
Germany	0.37	0.49
Mexico	0.14	0.18
UK	0.09	0.12

"The British traditionally have not been good at exporting beers," said Mr Harvey Allen, managing director of Allied Breweries Overseas Trading. "In the past we had a fairly secure and growing market and little confidence in overseas markets as it is not easy to export beers. But with tastes and cultures changing, as well as static sales at home, efforts are increasingly being made abroad."

The British effort—with exporters including all the major national brewers as well as regional companies such as

Matthew Brown and Vaux—has been strongly assisted by the Brewers Society which has forged links in the last couple of years with British Overseas Trade Boards and provided a forum for the exchange of information and ideas.

In the U.S., for example, a label acceptable in one state may not conform with labeling requirements in another. "There has been a lot of co-operation and pooling of ideas," said Mr Mike Ripley of the Brewers Society. "Now more than 20 companies are exporting to the U.S. with more than 45 different beers on sale."

"The products are premium priced and are very much cult drinks and we are not aiming to put a dent in the classic U.S. market—the man who buys his six-pack to watch the football match on TV."

British exporters to the U.S. have tended to concentrate on the bottled sector of the market with draught products posing problems in connection with the return of kegs and also the volume of beer an outlet may require. But bottled products can give problems of quality control: an outlet may buy a couple of dozen bottles and keep serving them for the next few years.

One area where Vaux, the Sunderland-based brewer, believes that it can exert more quality control is in the draught sector with the use of non-returnable kegs and it is now concentrating on this sector of the market. "We see non-returnable kegs as a great opportunity," said Mr Peter Hayward, group commercial director of Vaux. "We have no problems about the return of the container, it is lightweight and we can guarantee quality at the point of sale."

Beer exports and imports

Total UK Imports:	1983:	1,877,594 Bulk Barrels
	1984:	2,052,422 "
Total UK Exports:	1983:	458,044 "
	1984:	524,018 "
Exports to the U.S.:	1975:	55,325 "
	1984:	185,920 "
Exports to Italy:	1975:	6,478 "
	1984:	50,517 "

Source: Brewers Society

In 1984, Vaux exported the bottled equivalent of some 1,230 barrels to the U.S. but aims to the future to export 10 times that amount per annum. UK exports to the U.S. last year were about 180,000 barrels out of total exports of some 500,000 bulk barrels.

Marketing

British brewers are also exporting non-alcoholic drinks to the U.S. Allied Breweries Overseas Trading last month launched its St Christopher non-alcoholic lager in the U.S. after a successful marketing of the product in Canada in 1984. Like other exporters to the U.S., it paid particular attention to the packaging of the brand.

"Non-alcoholic lager is about drinking and driving in the UK," said Mr Allen. "But in North America it is seen as an alternative to sweet soft drinks as well as appealing to the

health and diet conscious." Allied also sells its non-alcoholic lager in the Middle East, Bermuda and Spain, the latter market according to Mr Allen proving to be very buoyant despite considerable competition.

Mr Allen also gives the example of the Italian market—the second largest for British exporters—where there has been an explosion in demand for imported beers. During the past six years the Italian market for imported beers has grown by over 100 per cent, again from a very small base, but providing market opportunities for companies such as Allied.

Its brands such as John Bull, Ind Coope Pale Ale and Allsopp Lager now have nearly 50 per cent of UK exports to Italy which are estimated to be around 50,000 bulk barrels a year.

Maintaining the premium

image of such products is a pre-occupation of exporters—as it is with importers of specialty beers into the UK.

The theme of the quality import image is one reason why Guinness will not consider brewing either Guinness or Harp lager in the U.S. "In the U.S. we are known as an importer of specialty beers," said Mr Chris Davidson of Guinness, "and we have no plans to become a domestic producer when the growing market is for imported specialty beers."

Guinness, through its Guinness Harp Corporation is not the largest importer to the U.S. but it probably has the largest portfolio of imported beers. These include Harp—marketed with an impressive gold and royal blue label and with a short history of the product—Guinness, Caliber, a non-alcoholic lager, Bass Ale, Furstenberg, Kronenbourg and Asahi. The last two products have recently been taken into the company's portfolio having previously been marketed in the U.S. by Kronenbourg of France.

Developing in the U.S. market has been a strong priority for Guinness since Mr Ernest Saunders took over as group managing director in 1982. Last year the group bought Richter Bros., an importer and distributor of specialty foods, again a strong growth area in the U.S.

Last year the importing of drinks into the U.S. earned Guinness around \$40m with the group reporting sales to be up by 33 per cent on the previous year. Guinness, said Mr Davidson, would be continuing to focus on this market. "It has growth potential, the dollar is the hard currency in the world and premium products show high returns."

Major Specialist Off-Licence Chains end 1984

Number of outlets	Name of chain	1984
Bass	Augustus Barnett	400
	Galleon Wine	360
	Mitchells and Butler	106
	Others	40
	Total	906
Allied Breweries	Victoria Wine	110
Whitbread	Ashe and Nephew	325
	Threshers	380
	Whitfalls Wines	72
	Total	777
Grand Met.	Peter Dominie	430
Courage	Arthur Cooper	390
	Roberts of Worthing	390
Greenall Whitley	Drew Wine Cellars	130
	Cellar 5	178
	Total	308
Unwines	Unwines	308
North West Vint.	North West Vint.	238
Seagram UK	Odin	56
	Gough Brothers	155
	Total	211
Ree Stables	Haddows	182
Viral Group	Shop Inn	180
	Bottle and Basket	100
Lennons	Lennons	94
(Dee Corp)	Goldfinch Wine Stores	140
Vaux Breweries	Blayney	140
	Liquormarket	140
	Fisher, Smith and	57
	Turner	57
Agnew Stores	Agnew Stores	50
Holdings	Holdings	30
Greene King	Winterchaden Wine	30
A. Hinton	Shops	30
(Argyll Foods)		

In some cases numbers are only approximate

Major UK Licensed Grocery Multiples, December 1984

Number of grocery stores	Total	Licensed
Argyll Group	1,090	711
Presto	151	151
Liptons/Galbraith	615	405
Templeton	55	42
Hinton	145	95
Le-Cost	121	18
Cordon Bleu	452	332
Associated British Foods Gp	290	280
Fine Fare	163	110
Shoppers Paradise	29	22
Stewarts	101	98
Asda (Associated Dairies)	163	125
Bishops/Budgen	213	170
(Booker McConnell)	127	58
British Home Stores	6,400	2,000
Co-op	109	75
Cullens Stores	770	671
Dee Corporation	382	333
Gateway/Keymarkets/Lennons	8	8
Carrefour	380	330
International Stores	42	34
Hillards	332	60
Kwik Save	104	104
(Kwik Save Discount Group)	61	60
Littlewoods	45	44
William Law	16	16
William Law	264	259
William Morris	23	23
J. Sainsbury	118	118
Sainsbury (Sainsbury Stores)	400	340
Tesco (Tesco Stores Holdings)	77	75
Waitrose (John Lewis Partnership)		

* Limited assortment discount store
† Freer centre
‡ Variety store

Source: Economist Intelligence Unit

Thirst unquenched in take-home market

THE GROWTH of the take-home drinks sector has been one of the most significant shifts in consumer purchasing patterns over the past decade, reflecting the overall trend in society towards more home-centred activities.

This trend, moreover, has been accelerated by the vigorous merchandising by supermarket chains of alcoholic drinks of all types. Of the leading grocery multiples, most of their stores are licensed—a position that has been helped by the growth of larger stores with the space to display more drinks.

About a third of the co-operative retail movement's 6,000 stores are licensed, as are most Marks & Spencer stores.

According to Stats MR, a market research company, some 71.5 per cent of all off-licences were operated in conjunction with a grocery store, while the remainder were specialist outlets.

The importance of the take-home sector in the drinks market is emphasised by new market research from the Mintel research group. This research, published in a recent report, reveals that 73 per cent of consumers buy alcohol for drinking at home.

The survey shows, moreover, that more consumers are buying beer and cider to drink at home—some 33 per cent bought beer to drink at home in 1983, rising to 36 per cent in 1984. For cider, the percentage of consumers buying it to drink at home has risen from 11 per cent to 12 per cent.

More men than women in total buy drink for home consumption—although in the supermarket sector alone, the split is fairly even. Further analysis of the survey's results shows that the 25 to 44 age group are the most frequent purchasers of drink for the home. In class terms, there is a slightly higher level of buying at the upper end of the socio-economic scale.

The use of specialist off-licences is much greater

among the ABC1 (professional and executive) groups, than among the rest of the population. Sales through supermarkets alone, however, show a much more even class distribution.

Mintel's survey looks at various sectors in more detail. It points out that, for beer, off-licences are comparatively weak because of the continued dominance of the pub in beer sales.

"Where beer is concerned, there is a much heavier bias to men than in other sectors of the drinks trade," says Mintel. "Even in supermarket-made buyers by two to one, while in specialist off-licences the figures are four to one."

This is partly due to men's drinking preferences, adds Mintel, and partly to the sheer bulk of beer and the consequent effort needed to carry it.

According to Mintel's survey, beer buying for drinking at home peaks quite strongly in the middle age groups.

The growth of the take-home sector, and the greater involvement of non-specialist off-licences such as supermarkets, has led to considerable changes taking place in the specialist off-licence trade.

The number of specialist off-licences is estimated to have fallen to about 11,600 last year, from some 13,500 in 1980 as a result of the increased competition in the market forcing out some of the less efficient operators. In the last two years, moreover, there have been a spate of takeovers and mergers and existing outlets have been refurbished and re-launched.

Off-licence chains

In 1980, the only major national specialist off-licence chains were Victoria Wine, owned by Allied Breweries, and Peter Dominie (Grand Metropolitan). Now, however, several of the major brewers are trying to establish a corporate identity for their various off-licence chains under their control.

Bass, for example, has now become the owner of the largest group of off-licences since its acquisition of Augustus Barnett in 1983. Barnett is the name being used for the specialist stores, while Galleon Wine is for the smaller, down-market store. Wine Sellers is gradually being phased out.

Victoria Wine has been setting the pace in the past year or so for creating a new image and approach: stores have been redesigned with particular emphasis on making them more attractive to women customers.

Whitbread, which operates the Threshers chain, was busy expanding its off-licences by acquisition last year. In January it acquired a group of companies from London including the 325-off-licence Ashe and Nephew off-licence chain. In October, it bought a further 72 outlets trading under the Whitfalls Wines banner.

Whitbread now ranks as the third largest off-licence operator with Bass and Allied in the two top places.

Within the specialist sector, beer and cider are estimated to account for about a quarter of turnover by value. Beer is sold mostly in cans, and only in the case of stout does the bottle still predominate.

The growth of the take-home sector is likely to continue in the foreseeable future but probably at a slower rate than before. Most growth, however, is estimated within the trade to be likely to come from the supermarket sector. The small independent grocer selling drinks is expected to have difficulty holding his own in the more competitive market conditions. The specialist off-licence sector will most likely continue to see some shake-out of small operators and a greater involvement by the big brewers.

"The Alcoholic Drinks Market, published by Mintel, 7, Arundel Street, London, W.C.2, price £425, D.C.

Clearing the air on licensing hours

PRESSURE FOR reform of Britain's licensing laws is now becoming so intense that for many the key question is not whether the law will be changed to allow more flexible drinking hours but when the change will take place.

The mood of Mrs Thatcher's Government has convinced most in the trade that the law will be changed in the next few years, especially since the Government is keen to reform the archaic shop opening hours legislation.

The case for licensing law reform, however, suffers because drinking alcohol is such an emotive issue for many people, especially the question of alcohol abuse.

This makes the forthcoming Scottish Office report on the position in Scotland even more crucial to the debate. Licensing laws in Scotland were reformed in the mid-70s to allow longer and more flexible drinking hours. By all accounts the change has not led to increased alcohol abuse but, instead, to the reverse with some suggestions that the incidence of drinking problems has improved. The Scottish Office's report will probably confirm this trend and intensify the pressure for reform.

Moreover, the Government is keen to reap the benefits of Britain as a tourist attraction and Lord Young has a brief to look at ways of enhancing Britain's tourism. Many overseas visitors are amazed to find the restrictions placed on drinking in England and Wales.

Their surprise is understandable, however, since permitted hours of sale of alcoholic drinks in England and Wales are stricter than almost anywhere outside the Moslem world.

Laws governing the sale of drink in England and Wales have their origins almost five

centuries ago. In 1495, Henry VII empowered justices to close certain ale-houses and take surties from ale-house keepers. It was apparently part of a campaign to encourage archery rather than "useless games."

The present pattern of licensing laws for England and Wales developed under the emergency powers of World War I and were consolidated in the Licensing Act of 1921, which introduced the principle of permitted hours—a concept which empowered local magistrates to set times when drink could be sold.

The general hours were modified to their present form with the Licensing Act of 1961 and consolidated in an Act of 1964. However, the position varies considerably across the country and further complexities are created by special hours licences and extensions.

In Scotland, laws enacted in 1976 allow much greater flexibility. Pubs are allowed to stay open much longer than previously, depending on customers' needs and the suitability of the premises.

In Wales, Sunday opening for pubs is determined in each district every seven years.

Opposed

The last major attempt to reform the basic licensing laws in England and Wales was in 1972 when a Home Office committee headed by Lord Erroll unanimously proposed that pubs should be allowed to open from 10 am to midnight and restaurants and cafes should be allowed to sell alcohol regardless of the sort of meal service they provided.

However, the Erroll report was opposed by the well-organised lobby against liberalising the licensing laws, composed of religious, temperance and health groups.

One major objection to extending drinking hours is that



it would increase alcohol abuse among young people.

Yet in Scotland this does not appear to have had this effect. Dr Christopher Clayton, who chaired a Whitehall committee which led to the change in Scottish licensing laws, says that "it is not clear that people in Scotland the suggestion is made that there is a good response to more liberal licensing in combination with health education, and lower levels of drunkenness have been recorded."

Dr Clayton also points out that the uneasy forebodings of those who opposed relaxation of Scottish licensing law have not been justified.

A Brewers Society survey last year of Scottish licensing hours found that consumers considered drinking "more civilised," made pubs more appealing, encouraged them to provide more food, and made them more suitable for women. The majority of the Scottish public, according to the survey, strongly supported the new hours and most believed that there had been no increase in drunkenness.

Scottish licensees overwhelmingly supported the new flexible

hours, believing that customer behaviour had improved and that drinking in Scotland had become more relaxed and pleasant.

Agreement sought

The new hours also have increased employment in the pub trade, according to the survey. Almost a third of licensees who have adopted new hours have taken on more staff.

Change in the English and Welsh licensing laws is likely to follow closely on the Scottish system, although the Home Office is understood to be keen to ensure that there is general agreement in the trade and with interested parties about what form of licensing laws should remain.

A lobby group, comprising the licensed trade, consumer groups, tourist boards and hotels, has been set up—called the Flexible Hours Action Group (FLAG)—which has been seeking general views. The Brewers Society, moreover, is understood to be in agreement with the National Union of Licensed Victuallers about what form licensing hours should take if the law is

changed. The main points of the proposals are that there should be no across-the-board changes but that individual off-licences would be entitled to vary their hours up to a maximum of 12 hours between 10 am and 12 midnight.

Approval for the variations will have to be given by local licensing justices who would take account of social circumstances and activities in the locality and consider any representations by the police or other parties. In special circumstances relating to the locality or to specific days, the justices could approve a variation for longer than 12 hours.

What will be the effect of longer licensing hours on the major brewers? Stockbrokers Wood Mackenzie point out that flexible opening hours do not necessarily lead to higher volume consumption of beer. "The experience of Scotland suggests that the key profit-generating companies is in trading up rather than trying to sell more pints," the brokers say.

"The brewers are likely to try and increase the number of managed houses where retail as well as wholesale profits can be earned," says Wood Mackenzie. "This will put further pressure on low harragee outlets which cannot offer the facilities of larger managed houses. We expect a re-appraisal of each brewer's retail estate with the underlying value of large, well located outlets rising to reflect their earnings potential."

All this, of course, remains speculation until the Government's intention about licensing law reform is made clear. It is likely that a Home Office statement on the issue will be made later in the year but it remains to be seen when parliamentary time can be found to make any changes in licensing laws.

David Churchill

Maurice Samuelson looks at the efforts being made to save on energy costs

Pubs could cut energy costs by £100m

FEW INDUSTRIES can be more sensitive to energy costs than brewing whose main processes rely largely on the management of heat.

However, energy costs are also being recognised as a major factor in the profitability of the places where beer is sold. In addition, energy costs are not unrelated to the revolution in the packaging of beer, emphasised by the switch to lightweight PET plastic bottles for larger take-home containers.

As far as the pubs are concerned, it is only quite recently that brewers have recognised the full amount of money they stand to make, or save, by exercising greater care over their heating or lighting.

For the total UK public house estate of 77,000 outlets, the energy bill is estimated to be some £410m a year at current prices. The managed house estate alone, containing some 14,000 houses, spends an estimated £75m a year on energy, with an average pub spending some £5,350 a year.

At a conference in Buxton, Derbyshire, in March, members

of the Brewers Society were told that there was scope for the country's pubs to save about £100m a year through efficiency measures which would cut their fuel bills by 30 per cent, or £300 a year per pub.

The finding was received with considerable interest since, until then, the conservation efforts of the brewing industry had concentrated mainly on the production processes within the breweries themselves, achieving a remarkable 16.5 per cent cut in energy costs since 1976.

The studies presented to the Buxton conference suggested that not only did the pubs use as much energy as the breweries but that they presented even greater scope for savings.

Most of the savings would be made by the elementary precautions over making sure that lights and heating were not left on when not required, or that both were kept at sensible levels. Although savings in these fields can be assisted by investment in energy efficient equipment, it was recognised that the management of the pub was

itself the key to achieving them. Mr B. J. Waring, energy and utilities manager of the Bass Group, reported that 31 per cent of the fuel bills of the group's 2,500 managed outlets went on their space and water heating. Their lighting bills came next, with almost 22 per cent, due mainly to the fact that lights were being used in trading rooms for 50 per cent longer than the licensing hours were in force.

Cooling of beer in pubs came next in the energy spending, at just over 17 per cent, followed by 12 per cent for catering and 9 per cent for the manager's own electricity use; sundry other costs accounted for the remainder.

The challenge

Having identified the scope for savings in the pubs, there is every reason to believe that, given their previous success in the breweries themselves, the brewers will successfully tackle this challenge, too, even though it will have to be achieved through managerial rather than

technical reforms. Energy costs—of the packaging makers rather than the brewers themselves—were also a factor in a recent revolution in the take home beer package, represented by the widespread replacement of glass returnable beer bottles by lightweight, tough PET.

However, the main reason for the success of PET—polyethylene terephthalate—has been its inherent qualities of lightness and strength and their appeal to the consumer.

Having taken the soft drinks industry by storm, PET bottles, suitably modified to exclude oxygen as well as to retain carbonation, were only launched as beer containers four Christmases ago.

Today, PET bottles are used by at least 24 British breweries as well as by several major retail chains with own brand beers. Metal Box, which pioneered the specially coated PET beer bottles, says they are in the process of becoming the second highest packaging medium for beer after the 16-ounce can.

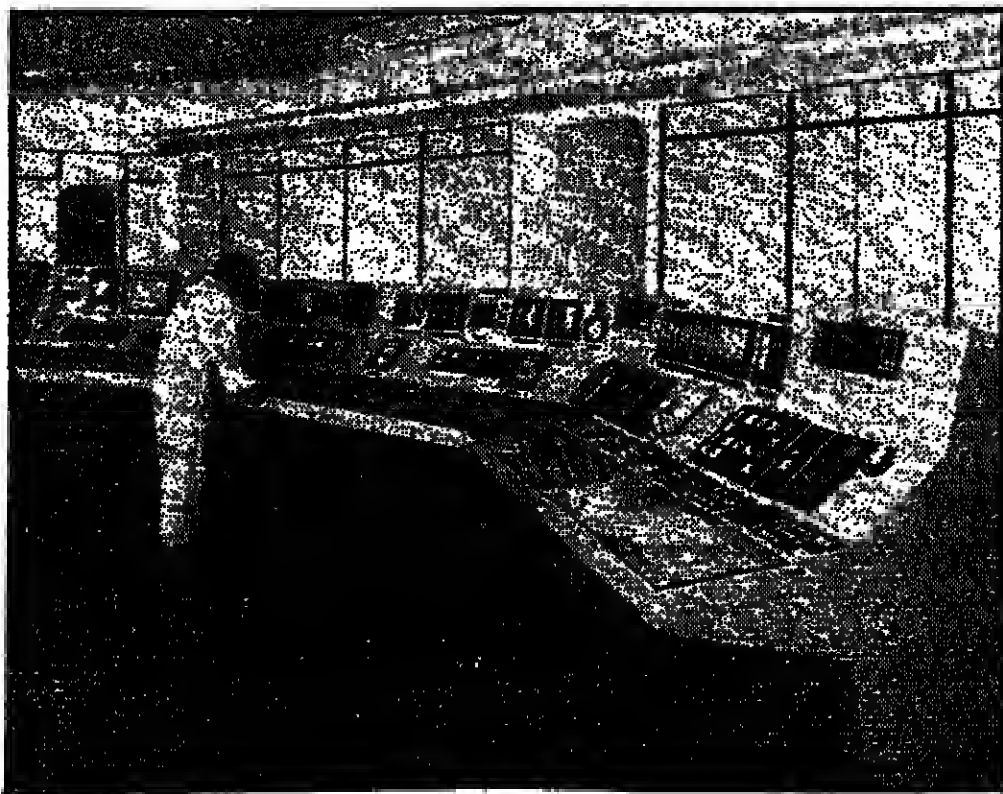
Packaging Review, the

monthly trade journal, said in its January issue, that brewers last year used 65m PET bottles, 90 per cent of them in the two-litre size. Incidentally, some 20 airlines are also carrying miniature PET spirit bottles, which are being used for several major brands. One of the latest Scotch whiskies, "go FET" is Teachers.

However, although the party can have virtually disappeared, the new material is not doing the overall popularity of cans as the leading beer package. According to Packaging Review, the number of beer cans sold in the UK last year rose 3 per cent to 1,950m units, with a total market value of £127m.

Within this sector, 16 oz cans are doing well at the expense of 10 oz cans which continue to be used, however, for stronger products such as Guinness and stout.

According to the Can Makers Information Service, in September and October 1984, 86.4 per cent of packaged beer sales in off-licences were in cans, a 9 per cent increase over the same months the year earlier.



The control room in the £13m complex of Scottish & Newcastle's Fountain Brewery in Edinburgh which is one of the largest and most fully-automated brewhouses in the world, incorporating the latest advances in energy saving

Following

May 15 1985

مكتبة الشرق

sed Grocery
nber 1984

Total	Losses
1,000	151
615	25
146	121
121	290
290	163
163	29
29	101
101	182
182	213
213	137
137	6,400
6,400	100
100	770
770	352
352	280
280	82
82	253
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ALLIED BREWERIES ARE PLEASED TO ANNOUNCE THEIR LAGER SALES ARE GOING LIKE XXXX.



Following its extraordinarily successful launch in Yorkshire and Central, Castlemaine XXXX, the Australian lager, is coming to London in May.

THE MANAGEMENT PAGE

EDITED BY CHRISTOPHER LORENZ

Deutsche Bank

The art of understatement

Jonathan Carr explains the West German bank's tradition of collective leadership

DEUTSCHE BANK, so the saying is, is run like a republic; Dresdner Bank like an enlightened monarchy—and Commerzbank like a dictatorship. The statement is hardly true any more of the two latter institutions, respectively second and third among West Germany's "big three" commercial banks. But it is still pretty accurate for the Deutsche—by far the highest and most profitable bank in the country, with a group turnover last year of DM 238.4bn (£82.7bn) and operating earnings of close to DM 4bn.

The "enlightened monarch" at the Dresdner, the much lamented Jürgen Ponto, was murdered by terrorists in 1977. The so-called "dictator" at Commerzbank, Paul Lichtenberg, stepped down as head of the managing board in 1976 (though the present incumbent, Walter Seipp, is also a tough character who leaves no doubt who is the boss). But at the Deutsche there is so strong a tradition of collective leadership, combined with studied understatement by those at the top, that an outsider might wonder at first whether the bank is run by remote control. This looks odd at first sight, because the Deutsche's top leaders since the war have not just been excellent bankers—each has a particular domestic banking responsibility, ensuring they keep their fingers on the banking pulse—but men of unusually wide interests and with the highest contacts in industry and politics. But they also are expected to merge, chameleon-like into the collective background of the managing board. In a phrase, they must be outstanding—but they should not stand out.

That tradition was confirmed yesterday at the annual shareholders' meeting when Alfred Herrhausen formally became new "co-spokesman" of the managing board. Herrhausen is not a "chief executive" nor even the spokesman—but one of two (the other is F. Wilhelm Christians who has had the job since 1976) whose task it is to represent the Deutsche's policies, jointly agreed by the board, to the outside world. Neither Christians nor Herrhausen will be given special notice in the bank's annual report. Again by tradition the

managing board members, including the spokesmen, are listed alphabetically, without titles. By contrast the members of the supervisory and advisory boards are given as Dr this or Professor that, with the chairman named first.

That might seem to imply that the Deutsche Bank's spokesmen are a rather dull lot; mere figureheads who leave the nitty-gritty decision-making to their colleagues. That is the reverse of the truth. Indeed, it is hard to think of any personality less like a figurehead than Hermann J. Ahs, the first post-war spokesman of the Deutsche and one of the most famous of all bankers.

It was Ahs who, in the final phase of the war, solemnly pledged to his mentor at the Deutsche, Franz Urbig (then aged 80), that he would do all in his power to rebuild the bank when peace came. He kept his word, although the Deutsche lost most of its assets and (like other German banks) was initially split up by the wartime victors. Only in 1957 did Deutsche Bank AG become a unity again, and a year later—thanks to Ahs—was managing the first D-Mark foreign bond issue for almost half a century.

Ahs was (and still is as 84-year-old honorary president of the Deutsche) a man with the mild appearance of an English country squire and an almost irresistible willpower. But, as one of his successors at the Deutsche recalls, even Ahs did not quite always have his own way on the managing board. And significantly, when he moved on to head the supervisory board in 1967, he was replaced by two spokesmen—underlining that Ahs was a special case in very special circumstances.

The new tandem at the top did not last long because one member of it, Karl Klasing, became president of the Bundesbank, the central bank, in 1970—a job he held with distinction for seven years. The other spokesman, Franz Heinrich Urbig, gained a bit less renown outside the bank than either his predecessor or successors—but he was greatly prized by those who knew him

well inside it. When Urbig moved on to head the supervisory board in 1976, there were even those who wondered whether the new tandem at the top table would be able to fill Urbig's shoes.

They need hardly have worried. One spokesman, Wilfried Guth, became probably the best-known German banker internationally over the last decade. Prized for his advice by many, including ex-Chancellor Helmut Schmidt, he has unusually broad knowledge of economics and finance based on, among other things, earlier work in central banking and at the International Monetary Fund.

It is Guth (born on July 8, 1919) who is moving to the supervisory board now—making way for Herrhausen and fulfilling the unwritten rule under which a member of the managing board gives up his post in the year of his 68th birthday (at the latest).

The other spokesman, Christians, who was 63 this month, has often tended to be seen outside Germany as the Deutsche's key "domestic business" man with Guth as the "internationalist". This is hardly fair to Christians who, among other foreign tasks, successfully negotiated a string of credit deals with the Soviet Union over many years, and probably has closer ties with top Russians (including the new Soviet leader Gorbachev) than any other Western banker.

One characteristic of all these men is that they have a broad range of interests—both in finance in the widest sense, and beyond. Again Ahs is the prime example with his international experience, mastery of more than half a dozen languages and wide knowledge of music and art.

Guth loves sport (including skiing and hiking) as well as music; Christians horse riding and modern paintings (he has a fine collection)—and so on.

All that helps explain why those who reach the coveted position of "primus inter pares"—which involves election by management board colleagues—not "appointment" by the supervisory board—are strongly placed to be able to draw policy accord from their management colleagues. Nonetheless agree-

ment is by no means always simple to achieve. Guth and Christians made a practice of meeting shortly before board sessions to compare notes and ensure they were not liable to be divided on any point.

At boardroom sessions, according to participants, less than 20 per cent of the time is spent discussing individual deals, the rest to thrashing out broad strategy.

Any danger of their concentrating on generalities is guarded against by every board member having to work, as they put it, "on the front"—meaning he is responsible for domestic business in at least one region of West Germany, as well as having a wider beat—for example internationally.

In all there are 14 regional beat branches in Germany, themselves controlling more than 1,900 domestic offices. Board members allow branch directors a lot of scope, thus fostering decentralisation and encouraging regional competitiveness. But a very regular reporting system generally ensures that any errors are quickly spotted at headquarters, and the offending director is given a—more or less friendly—hox on the ears.

Probably the single key word for the managing board is "balance"—of skills and ages, and a lot of trouble is devoted to achieving it. Some members of the board are brilliant (occasionally somewhat wild) ideas men; others terrifically banking businessmen; others stern controllers (it would not do to be invidious to suggest who is which). There is really no hard and fast rule on age.

Far ahead

Put all these historical and other factors together and it is fair at least to hazard a guess on who the Deutsche's next spokesman may be. Hilmar Kopper, responsible for European business, looks the best tip to succeed Christians later in this decade—and Werner Blessing, who is just acquiring responsibility for North America to add to his existing tasks in Latin America and Africa, to make the summit in the 1990s. That of course is looking very far ahead—but then that is what Deutsche Bank is usually doing.



Clockwise from top left: Hermann Ahs, the post-war re-creator of the Deutsche Bank; Wilfried Guth, retiring spokesman moving to the supervisory board; Alfred Herrhausen, co-spokesman since 1976; and Franz Heinrich Urbig, the new co-spokesman, in Guth's place.

THE NEW co-spokesman of the managing board of Deutsche Bank, Alfred Herrhausen, who was 55 in January, faces the biggest challenge of his strikingly successful career.

His job as "primus inter pares" is not hampered by the fact that he did not start out as a Deutsche Bank man. True, he only came to the Deutsche board from industry in 1970 at the encouragement of Christians who is now his co-spokesman colleague. But then Herrhausen's predecessor, Wilfried Guth, only came to the Deutsche quite late in his career too, from public banking and international business work.

Nor is there any doubt about Herrhausen's top qualities, as a banker and as one with major expertise in German business. Born in Essen in the Ruhr area, he knows the steel sector better than almost anyone and at age 37 was already finance chief of the key Dortmund-based VEW, the Dortmund-based electricity supply company. At home he has proved a highly effective supervisory board chairman of Continental Gummi-Werke, the

country's biggest tyre concern; abroad he has shown skill in directing the Deutsche's North American operations.

Colleagues (and rivals) agree he has a razor-sharp analytical mind, a great capacity for hard work—and many top level contacts (including Chancellor Helmut Kohl).

Herrhausen's real problems are that it will be hard for him to fill Guth's shoes and that Guth is a banker of quite uncommon range and exceptionally strong public image—even after the latter has been a huge bonus, of course, for Deutsche Bank.

So far Herrhausen has displayed little of that quality. In public he looks cool, aloof, even arrogant (though his defenders claim he is perfectly civil and friendly to those who do not waste his time...). At the Deutsche's press conferences he displays a mastery of facts, little sense of humour and constantly casts anxious glances at his watch. Inside the bank he is clearly prized, but as a "spokesman" for the Deutsche to the world it looks as though he has a lot to learn.

BUSINESS PROBLEMS BY OUR LEGAL STAFF

Personal liability

I am a director of a group of companies which became a victim of the recession and although drastic measures were taken it was forced into liquidation.

There has been considerable correspondence with the DHBSS which has been attempting to claim various amounts from me personally. Much confusion has arisen by the amounts claimed not being recognisable and in some cases the sums did not add up.

I have not as yet paid over anything.

Can the DHBSS claim from me NI contributions deducted from my salary and not paid over by the company; the employer's portion of the NI not paid for the same period, and any other NI contributions, employer's and/or employees; relating to other members of the staff not paid over?

If there are found to be any discrepancies from previous years relating to any of the employees including my own NI contributions can the DHBSS go back over these years?

It seems that the claims for unpaid contributions should be made against the company rather than directly against you; but a secondary claim could arise against you. Volume 33 of Henry's Laws of England, 4th edition may assist you.

Expenses of offices

I am thinking of setting up as a sole trader planning consultant in the UK and abroad.

I shall be using part of my home as an office but need a London base for my work. For this I propose to buy a narrowboat and convert it into an office and overnight pied-a-terre.

Will the £22,000 spent on this be allowed in full or in part as "setting up" capital expenses against tax? Will the proportion of current expenses on this office thereafter allowable on the country accommodation?

Do I have to register for VAT in advance before knowing the results of my first year's trading? If not, do

those I invoice in the UK for my services, have to have VAT added during that year, in anticipation?

Or must I wait until registered?

You should ask your local tax inspector for the free booklet IR28 (Starting in business), and your local VAT office for the free pamphlet 700/1 (Should I be registered for VAT?).

You could also ask your tax inspector for booklet CA1 (Capital allowances on machinery or plant).

Briefly, the answers to your first three questions are: no; no; and probably; it depends upon the precise facts.

Travelling expenses

I own some small shops and the Inland Revenue Tax Inspector has refused to allow me, from 1981, travel and subsistence for the purpose of management, rent collection, interviewing new tenants, etc.

The shops are some 200 miles from my house and I visit them once a month. I think it is quite unfair of the Inland Revenue to regard the monies as investment income.

My contention is that the income should be taxed as arising from a sole trader business. Could the income be transferred to an appropriate tax category or schedule so that I could then be allowed reasonable business expenses—including of course travel and subsistence?

Income tax (like capital gains tax) is levied according to arbitrary rules laid down by MPs over the years, with scant regard for questions of equity and fairness.

The Government has rejected calls from its backbenches for landlords' travelling expenses to be allowed as expenses of management under the rules of Schedule A.

A free explanatory booklet, IR27 (Taxation of income from property), is obtainable from your tax inspector. We are sorry to say that equity favours you—as has been indicated by some judges' comments—but Parliament is against you.

No legal responsibility can be accepted by the Financial Times for the answers given in these columns. All inquiries will be answered by post as soon as possible.

Company Notices

NOTICE TO THE HOLDERS OF BONDS OF THE ISSUE 7% 1977/78 OF US\$50,000,000

MADE BY THE EUROPEAN COAL AND STEEL COMMUNITY

The Commission of the European Communities announces that the redemption of the bonds of the issue 7% 1977/78 of US\$50,000,000 has been postponed to 15 June 1985.

Amount in circulation after 15 June 1985 US\$36,000,000.

B.I.R.D. FFR 150,000,000 7.25% 1972-1987

The FF 150,000,000 (representing 100% of the nominal value of FF 150,000,000) has been placed in the custody of the Banque Paribas (Luxembourg) S.A. for the purpose of being distributed to the holders of the bonds.

For the redemption of the bonds, the holders are invited to present their bonds to the Banque Paribas (Luxembourg) S.A. on or before 15 June 1985.

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Company Notices

WESTERN DEEP LEVELS LIMITED

(Incorporated in the Republic of South Africa)

NOTICE TO HOLDERS OF 12 PER CENT UNSECURED DEBENTURES 1986-1993—

INTEREST PAYMENT No. 10

Notice is hereby given that, in respect of the interest on the debentures for the period January 1 to June 30 1985, warrants bearing the latter date will be posted from the Johannesburg and United Kingdom offices of the transfer secretaries on or about June 19 1985 to debenture holders registered at the close of business on May 30 1985. For that purpose the transfer registers and registers of debenture holders will be closed from May 31 to June 14 1985, both days inclusive.

Registered debenture holders paid from the United Kingdom will receive the United Kingdom currency equivalent on June 3 1985 of the rand value of the interest due to them. Any such debenture holders may, however, elect to be paid in South African currency, provided that the request is received at the offices of the transfer secretaries in Johannesburg or in the United Kingdom on or before May 30 1985.

In terms of the Republic of South Africa Income Tax Act, 1962, as amended, a withholding tax at the rate of 10 per cent will be deducted by the company, where applicable, from the interest payable to those debenture holders whose addresses in the registers of debenture holders are outside the Republic of South Africa. Interest amounting to R20 or less accruing in any one year is exempt from the tax.

By order of the board

ANGLO AMERICAN CORPORATION OF SOUTH AFRICA LIMITED

Secretaries

per R. S. Edmunds

Divisional Secretary

Registered Office:

44 Main Street

Johannesburg 2001

(P.O. Box 6105)

Marshalltown 2107

London Office:

40 Holborn Viaduct

London EC1P 1AJ

555

Hill Samuel Registrars Limited

8 Greenock Place

London SW1P 1PL

Johannesburg

May 15 1985

PROVINCE DE QUEBEC

Loans FF 125,000,000—

7% 1973-1987

Nonholders are hereby informed that the redemption of the bonds of the issue 7% 1973-1987 of FF 125,000,000 has been postponed to 15 June 1985.

For the redemption of the bonds, the holders are invited to present their bonds to the Banque Paribas (Luxembourg) S.A. on or before 15 June 1985.

For the redemption of the bonds, the holders are invited to present their bonds to the Banque Paribas (Luxembourg) S.A. on or before 15 June 1985.

TRANSAMERICA CORPORATION

U.S.\$30,000,000

Floating Rate Notes due 1990

(Coupon No. 1)

Pursuant to notice conditions, notice is hereby given that for the interest period from 12th May 1985 to 12th November 1985 an interest rate of 8% per cent per annum will apply.

Amount per coupon =

U.S.\$2,268.06

payable on 13th November, 1985

Reference Agent:

The Long-Term Credit Bank

of Japan, Ltd.

London Branch

Personal

SWIMMING POOL, solar covers and rollers

at 0494 774050.

Announcements

"HAPPY BIRTHDAY WOLFRAM"

CHEMICAL NEW YORK CORP.

US\$300,000,000 FLOATING RATE

SUBORDINATED CAPITAL

NOTES DUE 1997

In accordance with the provisions of the Notes, notice is hereby given that for the interest period from May 15th 1985 to August 15th 1985 the Notes carry an interest rate of 8% per cent per annum.

The interest payable on the relevant interest payment date, August 15th 1985, against coupon No. 2 will be US\$1070.14 per US\$50,000 Note.

Agent Bank:

CHEMICAL BANK

IVORY COAST

Ministry of Public Works, Construction,

Posts and Telecommunications

National Office of Telecommunications

Ivory Coast

INTERNATIONAL INVITATION TO TENDER

No. 3290/84/ONT/DFB/PM/031

1—Objective

The National Office of Telecommunications (ONT) invites international tenders for the supply, installation and connection to the telephone network of an SPC digital local/transit exchange of 10,000 lines, extendable to 60,000 lines, in ABIDJAN and such other optional exchanges or equipment as may be required by the ONT.

2—Finance

Finance for the project is assured jointly by the African Development Bank (ADB) and the Ivorian Government.

3—Tendering Conditions

The tender is open to manufacturers and suppliers of digital exchange systems in member countries of the ADB and whose equipment is produced in these countries. The digital exchanges offered must have been already proven in service.

4—Tender Document Collection

The tender documents will be available to be collected from the 20th May 1985 at the following address:

Bureau des Appels d'Offres

4ème étage Porte 04-01

Postel 2001

on payment of F200,000 CFA by cheque or bank order, signed by the manufacturer or supplier, made payable to:

"Office National des Télécommunications de Côte d'Ivoire."

5—Return of Tenders

The tenders must be delivered not later than 17.30 on the 20th August 1985 to:

Direction de l'Office National

des Télécommunications

Service des Marchés

Bureau des Appels d'Offres

4ème étage Porte 04-01

Postel 2001

ABIDJAN

01 B.P. 1388

COTE D'IVOIRE

TELEX: 23790 or 23788

Director National Office of Telecommunications



Lontano/Elizabeth Hall

David Murray

Enterprising as usual, the young Lontano ensemble offered local or world premieres of music by four composers on Monday. The oldest music was by the oldest composer, a pair of pieces from the 1930s by the legendary Conlon Nancarrow. Now 73, Nancarrow has for many years been living in Mexico, devising music for player-piano, tapping possibilities beyond the range of merely human pianists.

The *Sonatina para piano* and the tiny, frenetic *Toccata* for violin and piano showed how natural it would be for him to explore that specialised medium. The *Sonatina*, which represents an American period with an adroit note-hits and a fugue finale, squeezes an enormous number of notes into five minutes; coolly organised, technically energetic. Shlough Sutherland played it with a will, though a more hard-fingered pianist (less musical, even) would be the ideal exponent. For the *Toccata*, Sophie Langdon's flying violin was backed by a pre-recorded instrument which played off like a rocket.

The West Coast composer William Kraft's *Galleria* 83 was much milder stuff. Prompted by three paintings — Monet's *Waterloo Bridge*, Jackson Pollock's *Composition with Blue* and the composer's own "Kandinsky Variations" — it makes nicely balanced neo-impressionist sounds (though a celesta ostinato instantly re-

Isaac Stern/Festival Hall

Andrew Clements

Isaac Stern is a regular visitor to London, but only rarely to give solo recitals. On Monday evening he was partnered by Jean-Bernard Pommerin in a programme of four violin sonatas which differed substantially from the ones originally announced, but which proved to be eloquently, sometimes powerfully impressive.

Stern's appearances nowadays invariably have their moments of danger when everything goes wrong. On Monday evening, however, he was very steady, mostly shrewdly and elegantly, sometimes powerfully. He played the first movement of Beethoven's A minor sonata, Op. 23, made fiercely combative, and later, delicately restrained.

That was but mild limbering up for Fauré's A major sonata; warmly, subtly conceived in its opening movement with unselfconscious, conversational ease between the two partners in the development, its Frenchian chromaticisms quietly savoured. One questioned only the fastidiousness of the scherzo — attacked with Frokofiev-like vigour, certainly, not the graceful presentation of the finale, which caught the full emotional weight.

Orwell and Swift

Anthony Curtis

This year's George Orwell Memorial Lecture, "Orwell and Swift," was given by Michael Foot on Monday. Bernard Crick, Orwell's biographer, was in the chair.

Orwell is on record as saying that he first read Gulliver's Travels when he was "eight years old at the most, and it's lived with me ever since." While proclaiming his lasting admiration, Orwell also parts company with his literary mentor on the grounds that "He couldn't see what the simplest person sees, that life is worth living and human beings, even if they're dirty and ridiculous, are mostly decent."

The main thrust of Mr Foot's lecture was a fascinating attempt to exonerate Swift from this charge of myopia. He presented a Swift who was a model of sanity and good sense, not merely a powerful engine of destructive satire. He denied that Swift ever declined into mad-

Early birds catch the clichés

Television/Christopher Dunkley



Debbie Greenwood of BBC "Breakfast Time"

If you were selecting a single five-second clip to illustrate the current state of breakfast television you could hardly do better than the moment last Tuesday morning on ITV's *Good Morning Britain* when Anne Diamond said "Now you breed budgerigars, yes?" and David Bailey, a famous photographer replied "No, I don't breed budgerigars." The exchange was stereotypical in that it occurred in the studio, with the presenter and "guest" on sofas, one of them (Bailey) looking understandably bleary-eyed, the subject matter was trivial, the presenter's background information was inaccurate (it turned out that Bailey had, once upon a time, bred parrots); and everybody was able to do a tremendous amount of that forced laughing which plays such a large part in breakfast television.

But let's be fair (after a week concentrating on breakfast programmes it is almost impossible to avoid expressing yourself in clichés): there must surely be good things to say about these early morning programmes. Well, the presenters on both ITV and BBC are pleasant enough, and although those on ITV may not be the world's greatest journalists they do have the common touch, plus a hint of wit; they read out smoothly and are never at a loss for a well worn phrase.

ITV's Anne Diamond is especially easy on the eye. It is no great surprise to learn that she is to replace Judith Chalmers as co-presenter of *Breakfast Time*. Those who complain that Miss Chalmers is being victimised because, at 48, she looks more womanly than girlish, and who assert that such considerations are not for men to men, should remember that this cuts both ways: Debbie Greenwood's route to the BBC Breakfast Time presenter's chair vacated this week by Selina Scott (another dishy-looking girl who can hardly have been selected for her towering journalistic talents) is barred to men.

And if the objection is that women should not be selected for their looks, then as viewers, we are entitled to ask why not. In a medium so concerned with pictures why should the gift of good brains count for so much more than the gift of good looks? It is not as if the programme is a public relations exercise for a producer's job to tell Winsey Willis at TV-am to have her teeth and her ghastly hair-cut attended to — after all, we have to look at her anyway. We ensure that the presenters have adequate research about their guests.

But (forgive the cliché) I digress. What else can be said in favour of the breakfast programmes? ITV have brought back new-reader Gordon Honeycombe, which does won-

ders for their image. They also serve children fairly well — assuming your children like rock music and old animated cartoons — and on Sundays they devote a large part of their programme specifically to child viewers, though it is a mystery why they find it desirable for so many Sunday presenters to have American and Australian accents, and it is embarrassing to see a man like David Frost reduced to dishing out prize sweaters for "Write A Photo Caption" competitions.

As a general rule the BBC gains immensely over its competitor by being able to use the Corporation's worldwide news structure. Once in a blue moon, events from the breakfast programme are shown on BBC's news channels, and it is a shame that the BBC's coverage of the appalling fire at Bradford, also in the BBC's favour — so far as I am concerned, anyway — is its general tone which, in Fleet Street terms, seems designed to appeal to a public somewhere between the readership of the small tabloids (*Mirror*, *Sun*) and the bigger tabloids (*Mail* and *Express*), whereas ITV's breakfast programme is now aiming determinedly below the market of every paper in Fleet Street.

The difference in approach between ITV and BBC became clear last week on the day that Lt General Daniel Graham appeared on both programmes (not an uncommon occurrence: there will soon be a groove worn on London's Westway by those driving at dawn between Camden Lock and

Lime Grove) to talk about America's "Star Wars" plans. At ITV, the only person capable of questioning him knowledgeably was another of the programme's guests, Jonathan Porritt, the director of Friends of the Earth. At the BBC he was interviewed efficiently by Frank Bough, and no doubt Sue Cook could have done just as good a job.

Such interviews are hardly typical of the output of either service, however. Both ITV and BBC are shameless in their use of cheap — if possible, free — material. Both are keen on rock videos, which allow them to display expensive footage for nothing. Both are keen on promoting their own forthcoming editions; the BBC, perhaps, using trailers to all even more time than ITV. Both sides also promote other programmes on their respective networks; ITV devoted a comparatively long time to an edition of *Link* last Friday, for instance.

Both, also, are blatant in their parasitical dependence upon the Press. For newspaper journalists it is flatteringly and astonishing to see how, (in what is supposed to be the age of the electronic mass medium) television still looks to Fleet Street to decide the news agenda. Not only is the comparative significance of events dictated by newspaper coverage, but newspapers are also used as the main source of ideas for feature material — on both stations for a daily "look at the papers" spot by another guest.

"Guests" are, of course, a primary feature of both programmes. Here, once again, the chief difference is clearly not subject matter. Whether it is David Cassidy hyping his new LP, Anita Harris promot-

ing her show, Strawberry Switchblade publicising their video, Oliver Thomas boosting his movie, Sally Brampton advertising her new magazine, the Clancy Brothers plugging their tour, or Andrew Neil putting the Sunday Times (just some of those seen in the past week), cost-effectiveness is obviously the programme's primary criterion. With the broadcasters conniving so enthusiastically at all this plugging it was curious to hear Frank Bough suddenly turn on a Coca Cola executive on Thursday and tell him to stop the commercials. Who invited Coke along to plug their "new" flavour in the first place?

Breakfast television was launched in Britain two years ago with a lot of ballyhoo. Day and night, the Famous Five trumpeted their "mission to explain." But when the BBC beer them onto the air, pitching their appeal uncharacteristically, at the centre of the tabloid media, the Famous Five — Robert Kee, Anna Ford, Angela Rippon, David Frost and Michael Parkinson — found themselves with virtually no audience. They were labelled, stuck up, and pretended. All but Frost disappeared and, with the Independent Broadcasting Authority turning two blind eyes to the conditions of their contract, the BBC's desperate rear-guard action. Today the most popular segments of their programme are watched by 2.5 million viewers; the BBC figure is only 1.5m.

TV-am's figures have been achieved by plunging down market. If they have a mission today it seems to be the reduction of all subjects to the condition of garden-fence gossip: time-filling, amiable, poorly informed. Indeed, so vivid does the memory of the Famous Five seem to be that TV-am now go to comical lengths to avoid any hint of "lecturing" or expertise. Even the sports reporter's material tends to be imparted as chit-chat with another presenter. That astrologer Russell Grant should have become the star performer in the BBC programme, with a greatly enlarged Monty Python role as the naughty-but-wise voice of the people, is an indication that the BBC is determined to stay in the scrap and fight for the bottom end of the market.

Since television news and current affairs have always tended to overlook the Daily *Mirror*/2H element of the audience, the biggest segment — there was room here for a programme. The pity of it is that both breakfast series have now gone for that segment (the BBC along marginally higher) so that British television's national high standard of news and current affairs is absent from the day's largest news and current affairs slot.

American Festival/Bloomsbury

Clement Crisp

The events planned for the Bloomsbury Theatre between now and the end of the month are given the general title of "A Bite of the Big Apple" under the assumption that we are sampling something of the New York avant-garde. If Monday's opening programme, with its mixture of video, dance, percussion and excessive talk, is anything to go by, then the bite is a small one, from the less nourishing part of the fruit.

The outstanding item was a dazzling performance by four percussionists from the New Music Consort of John Cage's *Third Construction*, a virtuoso exercise in electric rhythms, fascinating sonorities, brought off with sustained bravura. The four players, amazing in their mutual response, built Cage's construction with marvelous guffaws from some members of the audience detracted not at all from the work's power, drawn from a massive range of drums, gongs, wood-blocks, even a conch shell, to create a thrilling sound world.

The rest of the evening was altogether less compelling. A brief and pre-gamely comic video by Pooh Kays showed what looked like derelicts whizzing about in "fast-forward"

Lonely Cowboy/Tricycle, Kilburn

Michael Coveney

Whatever the impact of the Scarman Report on the Brixton community there are few signs of peace and integration in Alfred Fagon's new comedy. The new black community play, *Lonely Cowboy*, is as much a figure of fun as it is a Rastafarian poet with his promise of no more white sliced bread and the coming of the freedom train in the local hall. And working pre-gamely comic video by Pooh Kays showed what looked like derelicts whizzing about in "fast-forward"

Flight and Gina, in whose newly opened but dispiriting *Lonely Cowboy* cafe the play is set, are determined to make honest go of things, despite Flight's residual street habits. Outside, the police sirens wail every two minutes. A city slicker, Stanley (Trevor Butler), wins the widow's Thelma (Bernice) Michael with his opening gambit before losing a box of ganga to the thief Wally (Chris Tummings). This is the first of several unlikely physical explosions; the Rastafarian poet's production solve the problem of a succession of contrived and over-convenient exits and entrances. Still, a modest lively evening if the assessment of the popularity of black poets among their own people bodes ill for the proposed Black Arts Centre

Punch's Passion/Brighton Festival

Ronald Crichton

Way back in the 1960s the Belgian composer Henri Pousseur wrote a mobile, called *Punch*. "Mobile" meant alternative endings. The fourth of these alternatives has now been worked up, in collaboration with the Brazilian Paulo Cesar Chagas into a new *Punch* for the Brighton Festival. The *Punch* is a parody work with literary and musical quotations. Church music, opera, and various popular styles jostle together. In this performance, at least, the large orchestra frequently draws the words of the parody out of the repertoire (and strongly amplified) performers of Electric Phoenix. The text was not given in the festival programme, neither was the name of the author. The result was mildly entertaining, with not much left to do but admire the adroit way the composers slip from one style to another, and wonder why they needed such a large band.

The remainder was Stravinsky — the *Circus Polka* and *Pulcinella*. Neither work is an obvious choice today for a Brighton Festival, but the *Punch* probably attracts a smaller audience than they would otherwise draw. Both scores, however, are directly relevant to the festival theme of clowns and clowning. *Pulcinella* might well claim to be the best *commedia dell'arte* score in existence.

The complete ballet was given with Deborah Rees, Martyn Hill and Henry Herford as the soloists. A decent performance, with some fine instrumental playing, but not enough gusto. A suspicion of gentility weakened not only the rowdier pages but even the soprano's "Se tu m'ami." Gentility is as out of character for Stravinsky as for the good tune by Pergolesi whomover which he bled so enjoyably. On the other hand the fingers built excellently with the slow trio, where Stravinsky creates exceptional resonance with the simplest means.

Photography/Lewis Baltz

Gillian Darley

The myopic view he extended to it all — sukkah power points, scribbles on the plasticboard, houses dumped overmind-how in the sand — makes the series oddly compelling. By focusing so close, so neutrally, it is a ferocious comment upon a meaningless place, best summed-up in its own appalling jargon of "bedroom, read dormitory" in which landscape is transformed crudely into real estate.

The scene represented is a strange one to European eyes; we fight over each foot green acre as the urbanisation of scant space presses on. In the

U.S. the wastes remain; the brake — at least in the south-west — is applied only when the terrain is utterly unyielding. It is a stretch of land repels the invader there is, so far, always another available.

There is a school of American topographical photographers whose subject matter is the wasteland, the process of change — and inevitably, given the theme, the images are spare, disturbing, minimalist. Much of the impact of the photographs in the exhibition comes from the fact that they are sequential — although there is no end, no rose covered condominiums to

Saleroom/Antony Thorncroft

Phillips first major sale of Impressionist and modern pictures in New York on Monday night was disrupted by a bomb scare which cleared the auction room. Phillips were resuming yesterday, but with the rhythm broken, and the chance that many buyers may not be able to attend, the omens for what was planned as an important breakthrough sale are not too bright.

Of the lots sold, a still life of peaches and nuts by Renoir was on target at \$100,000 to a Tokyo dealer, but the most important picture on offer, one of Cezanne's male bathers, was unsold. A Vlamincx village scene made \$12,000 to the same Tokyo dealer, and a small Cezanne landscape \$46,000.

Christie's Geneva sale of European porcelain, most of which was Meissen, did quite well, for a total of \$502,030. Most of the major lots found buyers. The most interesting section was 23 figures from the famous "Cris de Paris" series. Modelled from 1753, the 36 characters representing the street criers of Paris, was the most extensive figure series produced at the Meissen factory. Twenty-three were offered for sale at Geneva, including the

Arts Guide

Theatre

LONDON

Noises Off (Savoy): The funniest play for years in London, now with an improved third act, Michael Blake-mare's brilliant direction of backstage shenanigans on tour with a third-rate farce is a key factor. (836 8886).

Starlight Express (Apollo Victoria): Andrew Lloyd Webber's roller-skating folly has 10 minutes of Spielberg magic, an exciting first half and a dwindling reliance on indiscriminate rushing around. Disregard. *Star Wars* and *Cats* are all influences. Fastlane curve rods towards rock, country and hot gospel. No child is known to have asked for his money back. (834 8184).

On Your Toes (Palace): Rodgers and Hart's 1936 musical is a genuine tonic. American jazz dances collides with ballet. Gems include *There's a Small Hotel*, *Glad to be Unhappy* and the Balanchine ballet for Slaughter on Tenth Avenue. (437 0834).

The Government Inspector (Olivier): Striking but unfunny revival of May under-equipped TV comic Rick Mayne-pickler. Richard Eyre's production for the NT lacks either comic tension or true delirium but, with John Gutter's imposing design of bureaucratic bunt, the show has a sort of monumental darkness as well as magnificent sedition. New translation by Adrian Mitchell. (823 2252).

Other Places (Duchess): Colin Blakely and Dorothy Tutin in a reassembled

trilogy of Pinter plays: *A Kind of Alaska* in which a victim of sleeping sickness awakes after 29 years; *Victoria Station*, a funny throw-back to the 1930s; and *One for the Road*, a chilling piece of intimidatory police state confrontation with first Pinteresque images of political despair. (836 8243).

Jumpers (Aldwych): Confident almost sober revival of Tom Stoppard's glittering comedy of love, murder and linguistic mayhem among the logical positivists, with Paul Edlington in more earth bound George Moore than was Michael Hordern. Felicity Kendal delightful as his retired musical comedy wife. Peter Wood directs. (836 8404, credit cards 379 8233).

NEW YORK

Cats (Winter Garden): Still a sellout. Trevor Nunn's production of T. S. Eliot's children's poetry set to trendy music is visually startling and choreographically feline, but classic only in the sense of a rather staid and overblown idea of theatricality.

42nd Street (Majestic): An immodest celebration of the heyday of Broadway from the original film like *Shuffle Off to Buffalo* with the appropriate brass and leggy hoofing by a large chorus line. (971 9200).

Torch Song Trilogy (Helen Hayes): Harvey Fierstein's ebullient and touching story of a drag queen from backstage to loneliness incorporates all the wild historicisms in between,

May 10-16

down to the confrontation with his dying Jewish mother. (944 9430).

Dreamgirls (Imperial): Michael Bennett's latest musical has become a stalwart Broadway presence despite the forced effort to recreate the career of a 1960s female pop group, *I Am Supremes*, without the quality of their music. (226 8200).

100 Years (Lyric): After 14 months in London, Tom Stoppard's latest giggle at the English intelligentsia, with a new-found attention to the heart that beats beneath the veneer, directed at a first clip by Mike Nichols. (226 8200).

Brighton Beach Memoirs (Neil Simon): If he wasn't sure before, playwright Neil Simon can expect a long run of his funny as well as touching childhood reminiscences now that the New York audience has been generally decided to name the theatre after the generation's outstanding box office draw. (757 8646).

La Cage aux Folles (Palace): With some tenuous Jerry Herman songs, Harvey Fierstein's adaptation of the French film manages, barely, to capture the feel of the sweet and hilarious original between high-kicking and gaudy chorus numbers. (757 2828).

Strange Interlude (Nederlander): Glenda Jackson carries on an appreciated tradition of bringing American classics to New York from London in this marvellous production in which director Keith Kitch wisely makes the asides an integral part of the conversation. Limited engagement ends May 5. (921 8000).

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Wednesday May 15 1985

Revival on the European left

THE LEFT is once again scoring points in European politics. The British Labour Party has begun picking itself up from the floor in the North-Rhine Westphalian election on Sunday the German Social Democrats landed a haymaker on the Christian Democrats and their Chancellor, Dr Helmut Kohl. But the phenomenon is not European-wide: President Francois Mitterrand of France and Mr Olof Palme, the Swedish Prime Minister, both look groggy.

The common element is that parties in power at national level—be they conservative as in West Germany and Britain, or socialist as in France and Sweden—are having difficulty maintaining their hold on the electorate at times of high unemployment and with policies of varying degrees of austerity. One of the rules of thumb of democratic politics seems to be asserting itself: voters' hearts are close to their pocket books.

Wage increases

How then may one explain the setback suffered by the Italian Communists in the regional elections held on Sunday and Monday? The honours went to a coalition government spreading from centre-left to centre-right which has been trying with some success to tidy up Italian fiscal deficits, rather more successfully, bringing down the inflation rate. Such rectitude, as far as it goes, is relatively new to Italians. They seem to have liked it since it has given them real wage increases. That cut away the ground under the Communists who are campaigning for the restoration of potentially inflationary full wage indexation.

But more specialised factors are at work in Italy. A wave of sympathy after the death last year of their leader, Sig Enrico Berlinguer, helped the Communists for the first time to pull ahead of the Christian Democrats in the elections to the European parliament. That effect has worn off. The established pattern of Italian party politics which keeps the Communists tantalisingly close to power but so far has always denied them the real breakthrough.

The novelty in Italy is that

the electorate appears to be reasonably happy with government by Sig Bettino Craxi, a Socialist, though there is nothing especially socialist about the policies of his coalition. If perpetuated this could eventually portend less volatility in Italian politics, but the basic pattern has not changed.

In West Germany, on the other hand, an important change appears to be taking place. After the fall, in 1982, of the last Social Democratic Chancellor, Herr Helmut Schmidt, his party for a long time was unable to find its feet. Its clear cut victory in North-Rhine Westphalia, following upon an equally convincing win in the Saarland, bids fair to re-establish the party as a credible opposition and the alternative party of national government.

But the Social Democrats have some way to go before achieving that objective, let alone before they can win a federal election. They will have to regain support on their right, as Herr Johannes Rau, Premier of North-Rhine Westphalia, has done. Yet they must not risk losing too much support on their left. That task may have been simplified by the apparent decline of the Greens, who look more and more like the lunatic fringe of German politics.

Lunatic fringe

Above all, the Social Democrats will have to find an unambiguous defence policy. In a conservative society, the attempt to build a Social Democratic government upon an alliance with the "Ecopax" (ecologists and pacifists) and upon anti-Americanism groups is bound to fail.

The party leader, Herr Willy Brandt, appears to have decided to give German social democracy a push towards the centre. The task may be easier than it looks, for the rest of this year at least. The party itself and Germany's allies could not profit if it were to bring the Social Democrats into a position where they are a credible and genuine alternative party of government within the historic political consensus of West Germany.

WILL Japan and Germany boost their economies by cutting taxes? Although Mrs Margaret Thatcher assured the world that the word "reflation" was not even mentioned at the Bonn economic summit, few other gatherings on business or economics these days can afford to dismiss this question so cavalierly.

In fact, as U.S. officials were making plain before the summit, the attitudes to tax cuts in Japan and Germany could shape the world economy for several years to come; they could even make the difference between a continuing economic expansion, and a relapse into worldwide slump, exacerbated by protectionism and banking crisis.

On current policies, the International Monetary Fund's forecasts published two weeks ago predict, for example, that U.S. growth will drop from 6.8 per cent in 1984 to 3.4 per cent this year and 3 per cent in 1986, while Germany continues to stagnate at around the 2 per cent level this year and next, and Japan falls back from 5.8 per cent growth in 1984 to 4.1 per cent in 1985 and 1986. In fact, many private economists expect the slowdown in the U.S. to be much sharper than the latter part of this year onwards—U.S. growth as low as 1 per cent becoming a common forecast.

Such a relapse into near-recession in America would push world trade well below the safety threshold for developing country debt problems, to say nothing of the protectionist forces which it might unleash in Washington before the Congressional election in November 1986.

Yet, in theory, such nasty consequences could readily be avoided. Japan and Germany could implement some substantial tax cuts during the next six to nine months, thereby boosting a year or so later, their domestic growth rates, their imports from other countries and hence their contributions to worldwide economic expansion. Disputes still rage of course about precisely how such tax cuts could work, whether by adding to Keynesian demand or by harnessing the entrepreneurial "supply" of the Japanese and German economies—but there is little disagreement among economists that growth would be stimulated by tax cuts one way or the other. If the U.S. government succeeded in relaunching its budget deficits, some countervailing action in Japan and Europe might become even more urgent.

Accordingly, a broad consensus now exists among economists, particularly in America, around what Morgan Guaranty Trust has recently called "the crucial international policy of expansionary policies in Japan and Europe concurrent with U.S. fiscal progress."

Yet, in reality, it is by no means clear that either Japan or Germany is likely to change its fiscal plans in the near future. The Japanese are in a policy direction—or even to think seriously about additional tax cuts on a "contingent" basis if the U.S. and world economies continue to decelerate.

For in the finance ministry and central bank hierarchies, which frequently have a decisive say in both these countries' economic policies, there is a higher priority than tax cutting or even sustaining economic growth. The Japanese government must be reduced. In their relentless pursuit of this objective, the bureaucrats of Germany and Japan sometimes

After the economic summit

Why Germany and Japan are reluctant to take up the slack

By Anatole Kaletsky, recently in Tokyo and Bonn

make Mrs Thatcher look like a woolly-minded dilettante.

Between these policy-makers and some of their Anglo-Saxon counterparts, there appears to be a kind of intellectual language barrier.

Consistently successful records have helped to protect the German and Japanese official from criticism or pryings on the intellectual, as well as the political, level. The habits of working with solid national consensus, have bred in the German or Japanese economic official the underestimation, but stubborn, self-confidence of a master craftsman, not the argumentative but uncertain disposition of his counterparts in the finance ministries of Britain, America, or even France. The German or Japanese official is more like a violin maker who knows from experience exactly how to fashion a perfect instrument, than a professor of acoustics who tries to analyse the theoretical underpinnings on which the craft is based.

It's not the Germans' intellectual tradition to be too rigorous about economics. The Japanese usually say nothing unless it affects them directly. The British are nearly always the most articulate economists, and it's usually a Briton or American who gives the clearest theoretical analysis at any of our meetings, says one top economist in an international organisation. "The Germans sometimes seem to follow nothing but their vague intuition—but if they believe they're right, they act on them with total determination," says another.

The powerful intuition which the German and Japanese share today is that their countries are saddled with excessive national debt burdens, which must be contained at almost any cost. They place the blame for this situation on a decade of experimentation with ideas about demand management policies, mostly imported from America and Britain.

Japan's national debt has

grown five-fold in relation to GNP, from 12 per cent of GNP in 1970 to 67 per cent of GNP in 1983. Germany's has more than doubled, from 18 per cent of GNP to 41 per cent in the same period. During the same period national debt burdens in America, Britain and France have broadly stabilised or even diminished.

The contrast between these two groups of nations goes a long way to explain the hostility with which German and Japanese officials today respond to any proposals for international economic co-ordination which would place upon them an undue "burden" of stimulating world economic growth. Since the oil crisis of the mid-1970s, growth has slowed throughout the world and governments have tended to run larger budget deficits than in any previous period of peace-time history. General government deficits averaged 3.8 per cent of GNP from 1975 to 1984 in Japan and 3.1 per cent in Germany.

The growth of deficits was due to the same factors in all countries: after the first oil shock there was a widespread belief that high unemployment and slow growth would be a temporary "cyclical" phenomenon and that governments should deliberately seek reduction in public sector demand by cutting taxes or boosting public spending.

In Britain and America, however, national debts rose little, if at all, in relation to GNP during the 1970s because of rapid inflation, which ate away the debts' real capital value. In Germany and Japan, on the other hand, inflation was kept under control, while government deficits were allowed to rise to higher levels than in America and Britain because these countries' previous records of high growth encouraged greater optimism about their capacity to grow out of cyclical deficits.

Unfortunately history suggests that inflation is the most common way of reducing

national debts to manageable proportions—and this is a point which Germans and Japanese, with their bitter experiences of hyper-inflation in the 1920s and 1940s, never tire of making. For this reason, they are not much impressed by the many sophisticated calculations which can be made about "optimal" debt to GNP ratios or claims that part of their debts are really illusory—for example, because around one-third of Japan's gross national debt is actually held by the government through the social security funds.

They do, however, stress another theoretical argument: that debts will compound automatically into an ever-larger share of national income as long as real interest rates are higher than a nation's real rate of economic growth.

Thus, while the high interest rates which they feel are imposed on their economies by America's excessive budget deficits limits even further their room for fiscal manoeuvre, "If I was a businessman, I simply wouldn't touch it," says one Japanese official.

But the objections to deficit-financing and the accumulation of ever-greater debts seem to go even deeper. The roots of the problem we felt to lie in the 1960s, well before the economic slowdown hit both Germany and Japan.

In the late 1960s there was a structural change in our economy and in our economic thinking. We started to expand the government share of the economy—and half of it or more we allowed to be financed by deficits, instead of taxes," says Dr Hans Tietmeyer, State Secretary and chief macro-economic official at the Ministry of Finance. On the basis of previous experience, there were good grounds for the belief that public spending could

stimulate extreme economic growth and thereby become partially self-financing; this was even more true in Japan than in Germany. But when the world economic slowdown struck in 1974, the firmly conservative consensus on economic decision-making built up in the early 1960s had been dented.

"It was only around 1966 that we introduced sophisticated economic policies; until then economics was seen as a job for craftsmen. Unfortunately those sophisticated policies on demand management were only applicable to specific circumstances and while I wouldn't want to do away with all the ideas we learnt, we have paid a great price for using them in the wrong situation," says Count Otto von Lambsdorff, the former German Economy Minister.

The measurement of this price in terms of excessive levels of national debt appears to have transformed political, as well as economic, thinking in both Japan and Germany.

German officials have become masters at explaining the underlying structural reasons why their current 2.5 to 3 per cent growth rate is really quite adequate for a country at Germany's level of social development—and certainly does not call for any significant tax cuts or other measures. Limited tax cuts already planned for the 1986 and 1988 fiscal years. They cite with apparent satisfaction the fact that Germany's population is now falling by roughly 1 per cent a year and point to a shrinkage in the workforce as the best hope for a reduction in unemployment. They speak with unexpected enthusiasm about the environmental constraints on economic growth and even about the German people's understandable desires for ever-greater leisure.

In Japan, too, officials wax lyrical with "structural" explanations of their country's declining growth rate, its inability

profitably to deploy its vast domestic savings and its political damaging current account surpluses—all phenomena which conventional Keynesian economics would attribute to contractionary fiscal policies. Because Japan has caught up technologically with America and Europe, profitable investment opportunities are bound to have diminished, it is said. Because the population is aging, it inevitably favours saving over consumption.

Some Japanese admit that certain macroeconomic imbalances could be reduced if the government spent more on public investment. Even if this investment had to be financed by extra taxes, it would tend to raise output because Japanese taxpayers currently save as much as 25 to 30 per cent of their incomes. But there is strong emotional resistance even to such balanced-budget policies: Japan may be short of housing, roads and sewers, but it also lacks the land on which to build them, officials and private economists repeat with remarkable unanimity.

Against such deep-rooted caution, efforts at international co-ordination are unlikely to make much headway in the near future. As one German politician says, Mr Gerhart Stoltenberg, the Finance Minister, is at present "so careful that if he was buying a house he probably wouldn't let himself take out a mortgage."

The Germans and Japanese, however, do not seem unduly concerned about the danger that fiscal tightening in America could make the U.S. recovery fizzle out, and with it the biggest stimulus to their own economy. If only the Americans would cut their budget deficits, interest rates would fall, investment would become more attractive and you would see more of our capital coming back to invest in our own economy," says a Japanese official. "The imbalance in the world economy is due to the U.S. deficit and it is their business to correct it."

Mr Pym breaks a mould

THE formation of the Conservative Centre Forward Group under the leadership of Mr Francis Pym will deserve at least a footnote in British political history. The Conservative Party has always prided itself on the fact that it does not form groups: dining clubs, but groups were for the Labour Party or for Tory supporters who operate mainly outside Parliament, such as the Bow Group. Mr Pym and his friends have broken a mould. Yet the gentlemen's even, petrician, version of Tory history has never been quite true. The Conservatives quarrel internally like any other political party, whether over the core laws, tariff reform, membership of the European Community or, nowadays, unemployment. They just conceal their disagreements better.

Still, Mr Pym has moved a step forward by bringing the obvious discontents of sections of the party more into the open. He would not have done so if he did not believe that the Conservatives, the Government and the country face very serious problems.

Less persuasive

Some of the language in his article in the Daily Telegraph yesterday and in his Oxford speech last night is extremely strong: for example, his claim that under six years of Mrs Thatcher's premiership "we have endured the decimation of our industrial base, yet have emerged as uncompetitive as we started." Again: "We came to power committed to reduce unemployment over time. Yet it is now nearly three times higher than in 1979." No government can afford to take such charges lightly, especially when they come from its nominal supporters and on employment at least—happen to be accurate.

Mr Pym's proposed remedies, however, are less persuasive. He calls for substantial reductions in employer's national insurance contributions. The Government has been doing that steadily over the years. He wants greater investment in the public sector. The Government already invests quite heavily, though Mrs Thatcher does not always like to say so. He demands a coherent policy towards the exchange rate, but

does not say what it should be nor, indeed, whether such a concept is possible in the real world.

Much of the rest comes straight from the 1960s: regional policy and industrial strategy. Mrs Thatcher was elected in 1979 precisely to get away from such willy-willys. Arguably, she did not do so fast enough, early enough. There is time to recover, though no longer all that much. The next few weeks will be crucial, partly because so many decisions will be made which will determine what goes into the Queen's Speech in the autumn. The Government lost much of this year because of its attempt to abolish the Greater London Council and the metropolitan authorities without knowing how to do it; even now it is not quite certain that it will prevail over the opposition. The next few weeks will be crucial, partly because so many decisions will be made which will determine what goes into the Queen's Speech in the autumn. The Government lost much of this year because of its attempt to abolish the Greater London Council and the metropolitan authorities without knowing how to do it; even now it is not quite certain that it will prevail over the opposition.

It is in trouble, too, over the teachers. There are now two government must lead. Sir Keith Joseph, the Education Secretary gives the impression that he thinks the teachers will come back to the negotiating table this year, next year, sometime, never. That is beginning to look damaging politically.

Recovery time

Yet the fact remains that Mr Pym would not have spoken as he has if he did not believe that there was something seriously wrong. There is. Two years into its second term the Government's prospects for winning a third do not look as bright as they should. It has begun to look a messy administration, not always competent, bogged down in the details of ill-thought-out legislation, even accident prone. And it has ceased to appear radical.

The next Queen's Speech should preferably be short and should concentrate on legislation which genuinely advances the Government's central objectives. Mrs Thatcher was elected to be radical, not to tinker with the status quo. She could do that by returning to the reform of the tax system and developing the market economy.

Irish style

Wins Petrolux

At lunch on the 20th floor of Baring Brothers yesterday, Michael Whelan, the founder and managing director of Aran Energy, showed no sign of the strain of the frantic negotiations of the previous night.

At midnight he had snatched control of the British oil company, Petrolux, just 15 hours before the closing date of an agreed offer for Petrolux by Saxo Oil.

A complete surprise to the City of London, much to Michael Whelan's elation.

"All Hell broke loose when it was discovered that the cavalry had ridden in from the west," he said. "We aimed to come in at the end, before anyone had heard what Aran was up to."

Whelan, a 52-year-old Dubliner, learned about oil in his days as a lawyer with Shell Oil, Shell's U.S. subsidiary, and he developed the idea of an oil company in 1972. It came to him following a long period in hospital after a serious car accident.

"When I came out of hospital

Men and Matters

with the plan everyone assumed that I had suffered not merely concussion, but permanent brain damage," he says.

Thirteen years later Whelan's audacious plan to snatch Petrolux from Saxo, a much bigger company than Aran, was equally mystifying, even to the optimistic Irish.

"They were offering 50 to 1 against the deal going through, even amongst our own advisers in Dublin," says Whelan, who concedes, "It was very hairy. The merchant banks in London told me they had never been involved in anything like it."

Team games

Since news broke of Francis Pym's dissent band of liberal Tory backbenchers—officially launched yesterday as the Conservative Centre Forward group—I have been trying to recall where I heard that tittle before.

Then it came to me. Centre Forward was the title of a book published in 1976 and subtitled: A Radical Conservative Programme.

The author?—An incorrigible Tory right-winger by the name of Rhodes Royson.

His opus followed one by Sir Iain Gilmour, entitled: Inside Right. And the next move...

Mobil moves

After a decade and a half in power, the top management team is changing at Mobil Corporation—and on Wall Street they are wondering what difference Allen Murray will make to the lumbering giant of the oil industry.

Chosen to succeed chairman Rawley Warner early next year, Murray takes over at a low point in the company's fortunes. Its earnings last year

were less than half those of four years ago, its return on equity is one of the lowest in the industry.

At first glance, Murray, 56, contrasts strongly with the Princeton-educated politician Warren. Murray came to the company in 1971, after working for Gulf Oil as a 75 cents-an-hour mail-room clerk, switching to Mobil after he had been passed over for a special training programme. He went to college at night while working by day as an accountant.

Murray, says the industry's observers, is much more akin to William Tavoulareas, the combative ex-president of Mobil, who stepped down last year. Both men have been described as "street-wise" New Yorkers.

But whatever the change in personal background and style, the early signs are that Murray is not going to run things very differently from before.

He expects Mobil to continue its slimming, but believes most of the major surgery has already taken place; and he "is not prepared to write off Europe" where the company has been losing money on its downstream operations.

Mobil will also maintain its special relationship with Saudi Arabia, he says—but not again by paying above market rate to lift its crude.

Murray admits to being more optimistic than many in the oil business. Mobil will be producing more oil and gas in a few years than it is today, he predicts confidently. "Oil is still the biggest business in the world and is going to stay that way for at least the next 20 years."

Space at last

The long wall is nearly over for two veteran members of NASA's astronaut squad. They have been hanging around for 18 years for their first trip beyond the atmosphere.

Anthony England and Karl Benz, both career scientists, joined NASA in 1967, thirsting to sample the joys of a trip into space. Sadly for them America's space programme stagnated in the 1970s because of rapid inflation, which ate away the programme's real capital value.

In Germany and Japan, on the other hand, inflation was kept under control, while government deficits were allowed to rise to higher levels than in America and Britain because these countries' previous records of high growth encouraged greater optimism about their capacity to grow out of cyclical deficits.

Unfortunately history suggests that inflation is the most common way of reducing

It must be galling for the duo that others have jumped ahead of them. David Leestma, a relative youth of 36, who entered NASA's 90-strong astronaut team in 1980, grabbed his first flight after a wait of only four years.

Still more maddening must be the fact that two non-Americans will be journeying on a shuttle next month, several weeks before the patient pair. Patrick Baudry of France, and Sultan Salman Abdelaziz Al-Saud of Saudi Arabia, will fly as guests of the American Government along with five Americans. That will be the first space flight to involve people from more than two nations.

Henize, however, may be comforted by the thought that his name will appear, at least for a time, in the record books as the oldest person to enter space.

Unfriendly

A London journalist got a wrong number this morning. "Are you Friends of the Earth?" he asked.

"Certainly not," snapped an irate voice. "This is the Department of the Environment."

Observer



BASE LENDING RATES

A.B.N. Bank	12 1/2%	Hill Samuel	12 1/2%
Allied Irish Bank	12 1/2%	C. Hoare & Co.	12 1/2%
American Express Bk.	12 1/2%	Hongkong & Shanghai	12 1/2%
Henry Ansbacher	12 1/2%	Johnson Matthey Bkrs.	13 %
Amro Bank	12 1/2%	Knowles & Co. Ltd.	13 1/2%
Associates Cap. Corp.	13 %	Lloyds Bank	12 1/2%
Banco de Bilbao	12 1/2%	Edward Manson & Co.	13 1/2%
Bank of America	12 1/2%	Meghraj & Sons Ltd.	12 1/2%
BCCI	12 1/2%	Midland Bank	12 1/2%
Bank of Ireland	12 1/2%	Morgan Grenfell	12 1/2%
Bank of Cyprus	12 1/2%	Mount-Credit Corp. Ltd.	12 1/2%
Bank of India	12 1/2%	National Bk. of Kuwait	12 1/2%
Bank of Scotland	12 1/2%	National Girobank	12 1/2%
Banque Belge Ltd.	12 1/2%	National Westminster	12 1/2%
Barclays Bank	12 1/2%	Northern Bank Ltd.	12 1/2%
Beneficial Trust Ltd.	13 1/2%	Norwich Gen. Trust	12 1/2%
Brit. Bank of Mid. East	12 1/2%	People's Trust	14 %
Brown Shipley	13 %	Provincial Trust Ltd.	13 1/2%
CL Bank Nederland	12 1/2%	R. Raphael & Sons	12 1/2%
Canada Permanent	12 1/2%	P. S. Refson	12 1/2%
Cayzer Ltd.	12 1/2%	Roxburgh Guarantee	13 1/2%
Cedar Holdings	13 %	Royal Bank of Scotland	12 1/2%
Charterhouse Japhet	12 1/2%	Royal Trust Co. Canada	12 1/2%
Choulatons	12 1/2%	J. Henry Schroder Wagg	12 1/2%
Citibank NA	12 1/2%	Standard Chartered	12 1/2%
Citibank Savings	12 1/2%	TCB	12 1/2%
Clydesdale Bank	12 1/2%	Trustee Savings Bank	12 1/2%
C. E. Coles & Co. Ltd.	13 1/2%	Union Bank of Kuwait	12 1/2%
Comm. Bk. N. East	13 %	United Mizrahi Bank	12 1/2%
Consolidated Credits	12 1/2%	Westpac Banking Corp.	13 %
Co-operative Bank	12 1/2%	Whiteaway Laidlaw	13 1/2%
The Cyprus Popular Bk.	12 1/2%	Williams & Glyn's	12 1/2%
Dunbar & Co. Ltd.	12 1/2%	Winttrust Secs. Ltd.	12 1/2%
Duncan Lawrie	12 1/2%	Yorkshire Bank	12 1/2%
E. T. Trust	13 %		
Exeter Trust Ltd.	13 1/2%		
First Nat. Fin. Corp.	13 1/2%		
First Nat. Secs. Ltd.	13 1/2%		
Robert Fleming & Co.	12 1/2%		
Robert Fraser & Ptns.	13 1/2%		
Grindlays Bank	12 1/2%		
Guinness Mahon	12 1/2%		
Hambros Bank	12 1/2%		
Haritabla & Gen. Trust	12 1/2%		

THE £30m UK ZIP MARKET

The teeth are bared

By Nick Garnett

THE ZIP fastener is ubiquitous in modern life. A low technology product used by more than half the population every day as a humble, if necessary, implement, it has become as much a fascination as a door handle. Unless the clasp breaks, the teeth snag and the zip tears, no one pays it a moment's attention.

Yet this simple device has become a pertinent symbol of the strains and tensions exerted by the Japanese on European manufacturing and the stresses self-imposed by the Japanese on their own production units in their insatiable quest for higher profits.

Nowhere is this more evident than in the toe-to-toe slugging match between two UK plants battling for the £30m UK zipper market.

In the sterilised atmosphere of Runcom's industrial estate in Cleator Moor, Cumbria, the zipper business with 46 per cent of world sales, churns out 2.5m zippers a week for a 55 per cent share of the British market.

From the even more mechanised environment of Peterlee New Town, Durham, Optilon, part of the Anglo-German Opti group, the world's number two, has successfully stabilised its market share at about half that of its Japanese competitor following a disastrous slide in the 1970s. But the pressure never eases up.

Built four years ago at a cost of £5m, Optilon's plant demonstrates two things. One is its ability as a European manufacturer to wriggle away from extinction in some of its prime markets and then successfully to defend itself.

The other is that the competition offered by the Japanese through engineering capability and sheer organisational skill in maintaining production momentum is so merciless that the European company has had no time to snatch its breath since its recovery.

Through the first stage of YKK's Runcom plant was completed nine years before Optilon's, the Japanese-owned plant can produce 35 per cent more output with a 25 per cent smaller workforce and generate three times as much profit while paying its workers about £40 more per week.

The Opti group, formed in the 1960s as a partnership between the zipper inventors and those of the Hellenic family, strong

in nylon-cord zippers, never properly structured its management. But business was good. In the UK, for example, the group collared 65 per cent of the market by 1970, the U.S. manufacturer Talon holding 30 per cent. This cosy carve-up was shattered in 1972 when YKK Zip Fasteners UK began production. Within four years it had an astonishing 40 per cent of the market. "They had better products and were more efficient. We simply couldn't cope," says Martin Hall, Optilon's chairman. "By 1976 it was crisis time."

Paul Weller, the commercial director recalls. The Opti group's share slipped to 40 per cent and was heading downwards fast. Over the next few years Talon closed its only UK manufacturing site and scores of smaller companies went to the wall.

Opti subsequently rationalised in the UK and is being forced to do so in Europe where employment has dropped by more than a half in eight years to 2,300, excluding France, where its operations are being offloaded.

The large, archaic manufacturing site in Birmingham, lumbered with inflated overheads and antique equipment was shut at the turn of the decade and the workforce slashed from 1,400 to 340 (275 at Peterlee, 65 at Cleator Moor, Cumbria, which makes zipper chain). The European management structure was completely redesigned.

When the new Peterlee plant came on stream, Optilon's share had slithered further to 30 per cent but it was stabilised at just below that, an achievement given the headlong slide of the 1970s.

Nigel Berry, YKK's technical manager, thinks Optilon should be able to maintain its market share and concedes that the halt to YKK's growth in the UK has been a shock, particularly as demand in Britain for zippers slumped by 25 per cent in 1979-80 and picked up again only last year.

As a mark of this abrupt full stop, YKK's 1984 turnover in the UK was £1.5m, a 10 per cent increase on 1983, but its share of the market was 35 per cent.

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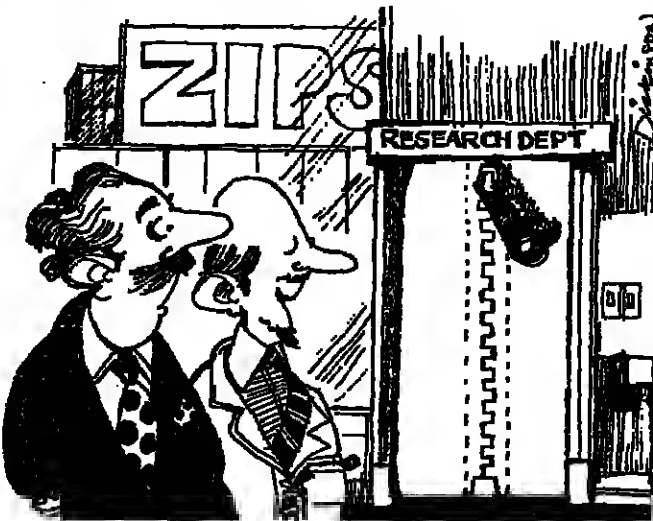
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"Well, we're always on the look-out to diversify into new products"

acknowledges that it cannot manufacture as efficiently as YKK, though matching it on quality and price. The question is why?

YKK has had its headaches in Runcom. The month-long strike over pay earlier this year came as a rude shock to both its local Japanese and British managers. Racial taunts from the picket line left the "cycle of goodness" company catchphrase of YKK's founder, Tadashi Yoshida, looking decidedly hollow.

Now the dust has settled, Eddie Blackwell, Transport and General Workers' Union district officer, believes the undercurrent of discontent expressed by some of the strikers was an aberration and the real issue was simply pay, settled by an 8.5 per cent deal.

The Runcom plant is back in production, demonstrating its high operating efficiency. It employs 220 in its chain and separate zip making, nothing up a £15m turnover, less than 10 per cent of which derives from selling imports. Optilon by contrast, employs 120 more with a turnover of £15m, a 10 per cent increase on 1983, but its share of the market was 35 per cent.

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assembled. The interiors of the two plants certainly look different. Optilon's has a slight air of a modern textile mill with people at work stations. Runcom looks more functional, closer to a production line in a can-making plant.

● The sheer size of YKK, which manufactures in 40 countries and has over half the U.S. market (Talon has about 25 per cent), and 40 per cent of the European (the same as Opti), with the Finnish Sarni and the Swiss Riri taking much of the rest) gives it a strong edge. In Japan it manufactures its own yarn and extrudes metal.

Mr Yoshiaki Watanabe, chairman and managing director of YKK in Britain, claims this integration does not automatically deliver cost benefits to its plants abroad because they are encouraged to buy locally. It does allow YKK to shoulder a large research programme, however. A couple of hundred people are employed in research and development at Toyama, Japan, though some of this activity is geared to the company's construction business.

It also provides a substantial base to power YKK's investment programme, even though each plant is responsible for generating its own profits which stay within the host country. It has recently expanded in Portugal and Denmark and has announced a major investment at Macao, Georgia. Back at Runcom, it is being invested in new production machinery for the moulded zip.

● The impact of attitude differences is hard to assess. YKK has a single canteen used by the manual workforce, managers and technical staff, seven of whom are Japanese. Its supervision structure is also non-traditional. With a chief plant operator, chief technician and technical assistant manager, senior staff have dual supervisory and technical responsibilities. "All supervisors are technically competent, responsible for machine performance and produce quality," says Mr Berry.

A more time-honoured atmosphere appears to pervade Optilon, with at least some hangovers from Birmingham. The canteen has a section for white collar staff and managers have waitress service behind a screen. "The workforce is different up here," says one manager. "If we ate with them they would just think we are spying."

YKK also has machines which carry out automatic packing which it tends not to use there because they take up too much floor space. In the downstream business of cutting the zip chain, processing and packaging, which is much more labour-intensive, YKK's machines are years ahead of Optilon's.

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Aid to Africa

The urgent need for a co-operative effort

By Timothy Raison

BY NOW, most people realise that as a response to the terrible famine in Africa emergency relief is essential, but that it will not solve the problem. We still need to work that out to deal with short-term needs—in particular, to translate the substantial pledges into actual food on the ground. But we also need to get to grips with the underlying long-term crisis.

Twenty years ago India faced similar massive problems, yet today India's agriculture is transformed and has become the springboard for sustained economic development. Reforms have been undertaken, or are underway, in several African countries, with startling results. Malawi,

themselves are often in disarray for want of finance and motivation. There is no point in producing water-efficient crops if the farmer cannot be guided as to when to plant them so that they survive or how to protect them from his goats.

Then there is management and development of human resources. Africa is now threatened by the huge relative cost of spreading general education and has been unable so far to turn it to good economic effect. The thirst for modernisation, and the desperate desire to secure a regular paid job—any job—for their children, drive parents to make great personal sacrifices. But the truth is that only a very small minority of pupils will eventually be required, or be able, to staff the modern sector of the economy, including public service.

We in Britain have recently come to feel that we should concentrate our educational aid—particularly the teachers, training scholarships and equipment we provide—on key institutions which will have a critical impact on the quality of the system. Traditionally, around half of our expert manpower in Africa has gone to education, and has been deployed most often in the secondary schools. Now we are concentrating more on the teacher training colleges and the technical and higher education institutions.

Looking more widely at management, there is a special need to help with creating an efficient and well-structured public service. Dependence on foreign British experts has fallen dramatically over the last 15 years. In 1972 we were supporting over 7,500; today, only 1,650. As management strains and weaknesses have become apparent, we are now trying to intensify the impact of those expatriates who are still needed. The accent has more and more to be on building up local training institutions, where many people can be reached and where the work takes place in the conditions of the country.

The efficiency of industry, and especially parastatal enterprise, is also an area needing

demands on both sides. donors may have to be abandoned or postpone commitments to new investments of commercial or political importance. They may have to substitute fast spending, flexible aid for the slow new factory. They may have to help with local or recurrent costs, contrary to their usual policies. They may have to make new aid pledges.

But the African country concerned must also often put cherished projects and non-developmental expenditure on one side. It must pass up the opportunity of playing one source off against another. It must listen to arguments about the need to allow for operational as well as wage spending in the recurrent budget. It must discuss openly alternative policy options which it might often much rather keep to itself.

This process is difficult; but it is vital for all concerned to see it as a co-operative effort and not as a necessary but unpleasant wrangle. We can make real headway; indeed we must.

The author is Minister for Overseas Development.



Zimbabwe and Ghana are heading this year for greater grain harvests. Zambia has turned its back on the policy of "King Copper" and is making a determined effort to put its agriculture right. Kenya and Tanzania are looking at marketing reforms, and Tanzania has now raised produce prices considerably.

Outside agents like Britain can reinforce this new mood by providing the country and its farmers with the means to operate effectively and by searching out new answers to the problems posed by more intensive cultivation of fixed land resources.

Under our general "sector" aid, we supply much of the commercial farmer wants in spares for agricultural machinery or fertilisers. Also needed are programmes of research and development into food crops which demand less water than traditional varieties.

National research has gone sadly downhill in many African countries, and it has also all too often broken the vital link with the extension services—which

Job-keeping bodies

From Lord Kaldor

Sir,—Samuel Brittan's article on wages councils (May 13) reminded me of a lecture by the late Professor R. H. Tawney (one of the shrewdest social observers of his generation) on the effect of the introduction of wages councils for fixing minimum wages in the East End clothing trade in 1910. Prior to this, the industry contained a number of reasonably efficient firms which suffered from the intrusion of a large number of parasitical firms who were highly inefficient but could not compete with the old-established firms by the use of sweated labour—immigrants from Russia who were paid abnormally low wages. The introduction of minimum wages forced these parasitical firms out of business, which in turn enabled the efficient firms to expand and increase the total output on account of a reduction in average and marginal costs and in prices. Hence minimum wages had highly beneficial effects on industrial efficiency without adverse effects on employment, since they also led to a large increase in production and sales at lower prices.

This happened before World War I. The figure quoted by Mr Brittan refers to 1980-81—a period that was many years after the introduction of minimum wages and which is not out of line with the decline in employment in the textile and clothing industries in general after World War II. The letter declined from 1.5m to just over 600,000—a reduction of 59 per cent as against the 51 per cent reduction quoted by Mr Brittan from the employment market research unit report for the same period.

The policy advocated by Mr Brittan amounts to the advocacy of lower productivity as a remedy for unemployment. He ignores that the free exploitation of labour is equivalent to a subsidy to inefficient employers whose presence crowds the market for the efficient firms.

(Professor) Nicholas Kaldor, King's College, Cambridge.

Poor pay problem

From Mr M. Kuczyński

Sir,—Certainly it is difficult to argue that all other things being equal, lower pay for particular occupations will actually destroy jobs there. But this does not mean that, while lower pay takes care of jobs, the redistributive tax system can take care of poverty

Letters to the Editor

(Samuel Brittan, May 13). Lower pay promotes employment in lower productivity occupations, which otherwise survive in the face of competition—in particular from imports.

Unfortunately, expansion of competitive low-productivity activities does not bring commensurate expansion in the tax base (for reasons which Ricardo neatly encapsulated in his "a tax on wages is a tax on profits" of 180 years ago), and so the possibilities of redistribution through the tax system are blocked—a problem well-known in poor countries.

M. G. Kuczyński, Pembroke College, Cambridge.

Women at work

From C. Tongue, MEP

Sir,—Samuel Brittan's article (May 13) on the abolition of wage councils is yet another example of a self-optimised male reducing issues of women's employment to the social scrap heap.

The whole article is an insult to British women who, Mr Brittan obviously needs reminding, have the same right to work under British and EEC law as do men.

Huge numbers of women are already marginalised in having to take low paid jobs and certainly do not want to be further degraded by having their wages topped up by social security. They want and have a right to a decent living wage and equal pay for work of equal value.

Carole Tongue, 84, Endleigh Gardens, Ilford, Essex.

People's pensions matter

From Messrs M. Field and S. Lyon

Sir,—We were members of the inquiry into provision for retirement set up by the Secretary of State for Social Services in November 1983. The inquiry was advisory in nature; it completed its work at the beginning of this year but was not required to prepare a report.

In advance of the publication of the Government's paper on the outcome of all the social security reviews we feel inhibited from commenting on its possible contents. We would, however, like to congratulate Michael Prowse on his objective

analysis (May 2) of the future of the state earnings-related pension scheme (SERPS). As he demonstrates, the issues involved are complex and cannot be defined solely in terms of state versus private provision. Evidence submitted to the inquiry made this abundantly clear.

Marshall Field, Stewart Lyon, c/o 35, Woodhall Drive, SE21.

Worst of all situations

From Mr J. Horsant

Sir,—The state earnings related pension scheme has introduced a complexity into pensions beyond reasonable expectation, a complexity which has undoubtedly been acting to the disadvantage of those in contracted-out schemes. It was therefore with some relief that I learned of the intention to terminate this scheme.

To learn now (May 9) that the earnings related pension scheme is to be phased out slowly seems to introduce the worst of all possible situations and will result in chaos for many years to come. I deplore this decision, which I feel can only be ill for all those involved.

John D. Horsant, Horsant Steward, Chichester House, Chichester Street, Chichester.

Houses to let

From Mr M. Taylor

Sir,—Mr B. Crofton, of the GLC Housing Department (May 9), in his reply to Dr Graham Hallett states that the shortage of housing to rent is less due to rent control than the economics of housing supply. To understand the economics of housing supply it is necessary to distinguish between two types of economic variable—a stock and a flow.

The reason we have rent controls while the suppliers of nearly all other products and services can charge what the market will bear is because housing to rent is largely supplied from a stock. Thus the state can prevent landlords from cutting off the supply by giving tenants and their surviving dependents security of tenure. If it tried to fix the price of products which flow from a production line at substantially below cost, suppliers

would simply stop production and the product would become unobtainable except on the black market.

Thus, while existing tenancies have continued while declining steadily in numbers as tenants have died, the flow on to the market of new tenancies at controlled rents has stopped altogether. The existence of alternative long-term investments for landlords' capital is a red herring. Alternative investments existed prior to 1916. There were also plenty of houses to let at rents people could afford. This is not the case today.

Michael Taylor, 10, Grete Walk, Hampton, Middlesex.

The Bosphorus bridge

From Mr D. Dixon

Rupert Cornwell in Bonn on the continuing battle over President Reagan's visit

German opposition denies anti-U.S. bias

ANXIOUS TO permit no blemish on their sweeping election victory in North Rhine-Westphalia on Sunday, West Germany's opposition Social Democrats (SPD) yesterday angrily rejected renewed charges from the ruling centre-right coalition that their party had now swung to a sharply anti-American tack.

In the 48 hours since the vote in the country's most industrialised and populous state, the SPD's alleged hostility to Washington has now emerged as the most emotive and sensitive domestic political issue.

Any doubt on this score was banished by the way the issue dominated what was supposed to be a routine four-hour parliamentary debate in which Chancellor Helmut Kohl reported on the recent Bonn

economic summit and the state visit by President Ronald Reagan.

The Chancellor's claim that the visit had been a historic confirmation of German-American friendship was hotly rejected by Herr Hans-Jochen Vogel, the SPD parliamentary leader, who maintained that the controversy surrounding the U.S. President's journeys to the Bitburg military cemetery and Bergen-Belsen concentration camp had done "more harm than good" to West Germany standing in the world, and to its relations with the U.S.

Herr Vogel and Herr Willy Brandt, the Social Democrat chairman, again rounded on the Chancellor for his remark on Sunday evening - which provoked a furious row with Herr Brandt - that the

SPD was now in the grip of "primitively anti-Americanism."

Describing the charge as "shameful and contemptible," Herr Vogel insisted that the SPD was as aware as anyone of what Germany owed the U.S. "We are friends and allies of the American people - but not vassals of the present administration," he remarked, in pointed reference to the frequent accusations of subservience towards Washington on Herr Kohl's part.

Contributing to the SPD's ranting is resentment over the refusal of Mr Reagan to see Herr Brandt - as precedent and protocol would normally dictate - during his six days in West Germany earlier this month.

But the eagerness with which the Christian Democrats have seized

the anti-American issue is proof of how they regard it as a vote-winner, which might offset their disastrous showing in North Rhine-Westphalia where economic themes dominated the campaign. The SPD, for its part, is well aware of its potential vulnerability on the score.

The debate is now largely overshadowed by continuing deliberations on possible direct German involvement in research on the U.S. space-based Strategic Defence Initiative (SDI), an issue over which the two main parties here are also at odds.

Herr Kohl yesterday repeated that Bonn believes that a go-ahead by the U.S. is fully justified. But West Germany would only make up its mind when it was convinced that full co-operation was an offer, lead-

ing to a genuine "two way street" of benefits across the Atlantic.

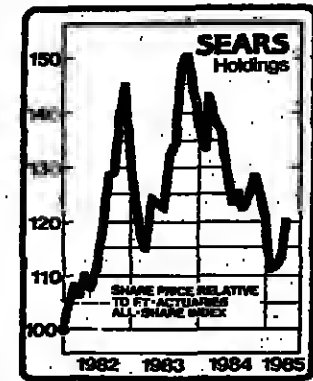
Bonn's options were examined at a high level meeting between ministers and companies that could be involved with SDI last Monday. Afterwards Herr Wolfgang Schäuble, Minister of State at the Chancellery, stressed that the point had not been reached yet where decisions "can and have to be made."

A team of West German experts will travel to Washington to examine the SDI more closely. In the meantime Bonn is consulting its European allies. But Herr Schäuble warned that the U.S. might simply go over the heads of government and approach companies directly.

U.S. moves to dispel SDI fears, Page 4; Editorial comment, Page 20

THE LEX COLUMN

Heavy going for Sears



As if the first-day premium on British Aerospace were not enough, at 44p, the City of London's lust for privatisation stocks spread - rather fancifully - to the gilt-edged market. Thoughts of an early redemption to pave the way for British Gas served to warm up the price of Gas 3 per cents, which made an improbable appearance, as speculative glamour stock of the day.

Sears Holdings

Unlike Debenhams, which somehow retains the allure of a bid stock even after yesterday's disavowal from Burton, Sears has found it hard to do much in recent months that can actually lift the valuation of its shares. Too big to buy, or to transform at one go by any but the most extravagant of deals, Sears is evidently fated to climb the rating ladder only by slow degrees. A prospective multiple of 10 shows how steep it is finding the climb. At least Sears' figures for the year to January - showing profits before tax up 10 per cent to £175.2m - did nothing yesterday to set the shares back; they fell 1p to 93p.

The only disappointment in these figures was a continued poor performance from Butler Shoe in the U.K., which has shared in the recent troubles of American retailing - overstocking, markdowns and tumbling margins. Yet this should be outweighed by the success of Selfridges, the expansion of the Olympus sports chain, and by the signs of renewed vigour in British Shoe, which has got over its problems with cheap plastic footwear, and is setting about the task of sharpening and separating the marketing identities of its many chains: badge engineering is on its way out of the UK shoe industry.

All in all, the thing which could get Sears the most stock market mileage is the re-focusing of its own image, through such things as putting the group name on its charge card and over the door in new multi-store developments. If Sears can at length suggest that it is less of a conglomerate, more of a retailer - dropping the "Holdings" tag on the way - there should eventually be something to show for it in the share price.

was not the most rewarding of businesses, General Accident yesterday hammered the point home with a 58m deterioration in its first-quarter motor result - a full three times the increase in its U.S. underwriting loss.

What is happening on the UK's roads is not at all clear; but whether it is more driving or worse driving, or merely protected no-claims chickens coming home to roost, the dramatic increase in claims frequency since last mid-summer shows no signs of abating. Unlike Royal, General Accident did well to hold back losses in the rest of the U.K. business. Yet this will scarcely affect relative views of the two companies when all the recovery action is in the U.S.

Here, Royal is favoured because of its proportionately higher exposure to commercial lines, where rates are hardening nicely. General Accident remains overexposed to personal business, and particularly the weakening personal auto account. Despite tempting U.S. agents with trips to Perth - or perhaps because of that - this business continues to be written.

The City has written off 1985 as a year of transition for the composite insurers and it makes little difference whether General Accident's first-quarter £16m loss turns into a £20m or a £50m profit for the year. Even after a £20m retained loss, and with dollar assets shrinking on translation into sterling, General Accident could still show some capital appreciation for the quarter.

Aran/Petrolex

Perhaps the oddest thing about the Petrolex saga is not that it ended in an episode of midnight gasping and the replacement of one agreed bid by another, but that the City has had little time for local difficulties. But if Royal last week showed that the U.K. motor account

for so long. Shareholders in Petrolex have, in any event, got more for their investment than seemed likely when Clyde started the auction. But investors in Aran, the successful bidder, may end up wondering why they have paid so much, after the dust has settled there is going to be a lot of Aran paper floating around, and it may be no easy thing to keep the share price looking respectable.

Aran's justification for the deal is its wish to explore in the North Sea, which would become tax-efficient given the Forties production it is getting through Petrolex. This optimistically assumes that Aran and Petrolex both get something worthwhile out of the North Sea, and that its cash flow will meanwhile be sufficient to make best use of the Petrolex tax shelter in exploration. If things do not work out to the letter, there is a risk that Aran will be seen to have paid too much for production that it cannot use, and it may then be little consolation to have cut such a dash in putting together the financing package.

Land Securities

Land Securities' 1984-85 results showed clearly yesterday, how much more important it is for a property company to be growing its assets fast than to be showing lots of earnings. Pre-tax profits, up 14 per cent to £35.6m, were some £2m or £3m above expectations, but the net asset-value per share of only 40p knocked 14p off the shares, which closed at 29p.

The market was puzzled by the revaluation surplus growing by only 4.6 per cent compared with 8.8 per cent the previous year, when demand was supposed to have been weaker. No explanation is forthcoming - one can only speculate that Land's less desirable properties, perhaps in Victoria, have been valued on a higher yield basis. The values may also have been reluctant to allow for a much firmer market when they assessed the properties at the end of March; which means that the evidence of the last couple of months would probably push the asset value up by another few pence.

Meanwhile, the end-of-year balance sheet shows gearing at only just over 10 per cent. While this must at least rule out rights issues, shareholders may fairly complain about the company's conservatism. Perhaps when rates have fallen a little, Land will launch a zero-coupon - an instrument that seems tailor-made for a property developer.

Aran wins Petrolex with last minute bid

By Dominic Lawson in London

ARAN ENERGY, an Irish oil and gas exploration group, has snatched control of Petrolex, a UK oil company, with a £15.8m (£20m) bid only hours before the closing date of an agreed £13.8m takeover of Petrolex by Britain's fast-growing Saxon Oil.

Last month Saxon had emerged as a white knight to save Petrolex from a hotly contested £11.8m bid from Clyde Petroleum. Clyde had itself narrowly failed in a bid for Saxon two years ago.

Aran began its attempt to buy control of Petrolex late last week, but admitted yesterday that its own advisers felt the venture had little chance of success.

But after lobbying Petrolex's institutional shareholders, Aran had by midnight on Monday received irrevocable undertakings to accept the offer from bidders of 51.7 per cent of the equity. The crucial stake was the 8.4 per cent held by Orono, a Houston based oil company.

Mr Michael Whelan, Aran's managing director, said yesterday: "We went for a last round shut-out, so the City could not start the Dutch auction it likes so much."

However, Mr Michael Unsworth, oil analyst at brokers Scott Giff Layton said: "People are assumed at the high price Aran has paid. Petrolex shareholders can't believe their luck."

Mr John Heaney, Saxon's chief executive, said yesterday that he was extremely disappointed. "We are going to make a stink at the Takeover Panel. Queensbury rules have not been observed in the past few days."

Mr John Lee of the Takeover Panel said last night that the deal contravened none of its rules. But he conceded "This is most unusual. We cannot think of another occasion when an agreed bid was shut out on the final day."

The swoop has also caused a sensation in Ireland. Mr Whelan said yesterday that it was the first time as Irish company had taken over a foreign quoted company since exchange controls were imposed in 1978. This prevented Irish investors from buying non-Irish equity, and Mr Whelan said that he needed "special permission from the Irish central bank" before the manoeuvre could be attempted.

Aran has interests in 80 per cent of all Irish oil and gas licences, but until now has had a stake in only one North Sea block. Petrolex's main attraction is its stake in RP's Forties field.

To finance the share and cash offer of five Aran shares and £5.80 cash for every eight Petrolex shares, Aran has had to prepare a note for five rights issue to raise £112m.

If Aran's shares were to fall from last night's close of 37p (down 6p) to 16p, Saxon's bid would become more attractive. Saxon is likely to re-open its offer, despite the "irrevocable" undertakings received by Aran.

See Lex

Kohl calls on Commission to revise farm price proposals

BY IVO DAWNAY IN BRUSSELS

CHANCELLOR Helmut Kohl of West Germany yesterday pressed the European Commission to bend its farm price proposals towards meeting Bonn's demands, in a highly unusual intervention by an EEC head of government.

As the Community's farm ministers' sixth negotiating session was again running into deadlock, Chancellor Kohl sent a telex to Mr Jacques Delors, the European Commission President, calling on the Commission to accommodate Bonn's dogged refusal to accept any cut in the price of cereals.

"The question of price reductions for the German Government is a matter of principle, and very important interests for our agriculture and our economy are at stake," he said.

Herr Kohl went on to appeal to Mr Delors to do "everything possible" to help West Germany over the cereals prices question. It was noted, however, that his message fell short

of giving a clear threat to veto cuts in grain prices.

Meanwhile, in Brussels Herr Ignaz Kiechle, the Bonn Farm Minister, was fighting a rearguard battle to dissuade Sig Filippio Pandolfi, the Farm Council's Italian president, from bringing the issue to a vote.

Such a move would present West Germany with a clear choice of yielding the veto by citing that "vital national interests" are at stake or face being outvoted by a qualified majority. Council officials told journalists early yesterday that Herr Kiechle has already clearly warned Sig Pandolfi in bilateral talks that he will use the veto if the issue is brought to a vote.

But reports that the German minister was angry at this revelation, together with Herr Kohl's careful avoidance of a veto threat, has led to speculation that Bonn might ultimately allow itself to be overruled.

Bonn is already suffering intense criticism, both at home and abroad for its contradictory stand on the

veto. Yesterday, Herr Rudi Arndt, chairman of the European Parliament's socialist group, described the Government's position as "scandalous."

He said: "The Federal Government has clearly condemned the veto and called it anti-community. With the behaviour of Herr Kiechle, who even stresses the Chancellor's support, the development of the Community towards European union is torpedoed."

The farm ministers spent most of yesterday in bilateral talks in preparation for what was expected to be another all-night session, but the indications suggested that the German appeals had fallen on deaf ears.

Mr Frans Andriessen, the Farm Commissioner, returned to the meeting yesterday with a firm declaration that he did not accept that his plan for a 3.6 per cent cut in grain prices conflicted with Bonn's vital interests.

EEC coal subsidies dispute, Page 3

Getty sales 'to raise \$2.5bn' for Texaco

By William Hall in New York

TEXACO, the U.S. oil company, will have raised \$2.5bn from the sale of Getty Oil assets when it completes the planned sale of another \$300m - \$400m of assets that it acquired following its \$10.1bn purchase of Getty last year.

Mr John McKinley, Texaco's chairman, told shareholders at yesterday's annual meeting in Atlanta that the price of the Getty assets sold so far was about \$800m over their book value. Mr McKinley said that when the \$2.5bn is deducted from the Getty purchase price it is "apparent that Texaco has acquired an enormous amount of proven reserves around the world at a very attractive price."

Mr McKinley used yesterday's annual meeting to defend Texaco's recent poor performance relative to other U.S. oil majors. Its return on equity has dropped from 18.7 per cent in 1980 to 7.3 per cent last year.

He noted that Texaco has closed or disposed of 12 of its 23 refineries around the world, concentrated on oil and gas exploration and avoided massive investments in minerals, shale oil and coal liquefaction.

The group's market share of the important gasoline market has been strengthened. Texaco says that it now has a 10.3 per cent share of the European market, 12 per cent of the Canadian market and 14 per cent of the Latin American market. In the U.S. it has 13 per cent share of its preferred markets and an overall 7.6 per cent share.

Texaco shareholders have seen their shares fall from a high of \$54.40 in 1980 to around \$37 currently, but Mr McKinley emphasised that each share is backed by 23 barrels of oil equivalent - "one of the highest figures in the industry."

Hopes linger on for meeting on Gatt date

BY WILLIAM DUFFLORCE IN GENEVA

SENIOR GOVERNMENT officials failed to reach agreement yesterday on an early preparatory meeting for a new round of multilateral trade negotiations, but kept alive hopes that such a meeting could be convened before the end of the summer.

Representatives of the developing countries, which have been opposing a new round of talks, agreed at the end of a two-day session at the headquarters of the General Agreement on Tariffs and Trade (Gatt) to seek new instructions from their governments. They heard detailed explanations from the U.S. and the European Community of their plans for the global negotiations.

A significant factor in persuading the developing countries, in particular India and Brazil, not to veto trade talks was an assurance from Mr Leslie Fielding, director general for external affairs in the EEC Commission, that the EEC would not oppose the inclusion of farm products as a subject for negotiations.

After President François Mitterrand's resistance to American pres-

sure at the Bonn economic summit for an early decision on the trade talks, it had been assumed that France was trying to keep the EEC's Common Agricultural Policy off the negotiating table.

It is understood that the developing countries were also given assurances of unilateral action by the industrialised nations to remove some trade barriers to developing country imports before a new round of negotiations. The most likely field for such action would be in textiles and clothing.

The Americans had been pressing hard for a meeting of senior officials in July to prepare for the trade negotiations. After the meeting of the Gatt consultative group of 18 countries yesterday the earliest possible date for such a preparatory exercise would seem to be September.

Among the 18, who represent a cross-section of Gatt's 91 members, all the developed countries supported the idea of a new round. Poland, speaking on behalf of Gatt's four East European members, also came out in favour.

Finsider aid approved

BY PAUL CHESSERIGHT IN BRUSSELS

THE European Commission has given the Italian Government authorisation to pay Finsider, the state steel producer, Lahn (\$2m) in subsidies.

An announcement yesterday noted that conditional permission had been given for the subsidies in June 1983. But it has only been recently that the Commission has accepted that the subsidies were justified by the progress of restructuring at Finsider.

Although Lahn has been unblocked, the Commission is withholding authorisation for about another Lahn until it is convinced of Finsider's future viability.

The Italian Government has been criticised in the past by other EEC governments, notably that of West Germany, for what was seen as a largely ad hoc approach to restructuring within the common policy of aiding the EEC steel industry of subsidies by the end of this year.

Egypt hope for progress

Continued from Page 1

Since Mr Peres took over as Prime Minister last September there has been a marked improvement in Egyptian-Israeli relations. The visit to Cairo last month of Mr Ezer Weizman, the special ministerial envoy, assisted the process, and he predicted then that there would be a summit meeting soon between Mr Mubarak and Mr Peres.

Dr Meguid also saw positive developments in the peace process. Egypt's Foreign Minister revealed that King Hussein of Jordan would visit Cairo on Monday for talks with President Mubarak before going to the U.S. for a meeting with President Ronald Reagan.

David Lennon in Tel Aviv writes: If the Cairo talks are successful, Israel is also confident that they will be followed by a summit meeting between Mr Peres and President Mubarak. The Israelis will agree to arbitration to resolve the Tabu dispute if attempts at negotiation or conciliation fail.

Israel's agreement to arbitration will be conditional on Egypt agreeing to the return of the Egyptian ambassador to Tel Aviv; improved trade relations; permitting a search for the bodies of Israeli soldiers lost in action; and resolving a dispute concerning Palestinian refugees in the divided town of Rafah.

The cuts announced yesterday affect forward spending estimates for 1985-86, and will secure savings over the full financial year starting July 1. Mr Keating said that with the aim of seeking further savings, the Government would continue to review all spending plans until the full budget was settled in August.

Programmes affected will include industry assistance and development (A\$204.1m), transport and communication (A\$180.6m), social security and welfare (A\$127.2m), and housing (A\$112.7m).

Real growth in defence spending will be cut from 4.5 per cent to 3.1 per cent, saving A\$84m. There will be an increase in health prescription charges, and reduced assistance for first time home buyers. Mr Keating also announced a review of funding of national broadcasting.

The Treasurer repeated the Government's main policy commitments - that in 1985-86 and over its three-year term, tax revenue and government spending would not rise as a share of GDP, and that the federal budget deficit would be reduced in money terms in 1985-86 and as a share of GDP over the three-year term.

Stock market reaction, Section III

BASF in deal with United Technologies

Continued from Page 1

The U.S.'s seventh largest manufacturing group, largely assembled by Mr Gray in an aggressive series of takeovers in the 1970s, UT's activities include Pratt & Whitney Engines, Sikorsky helicopters, Carrier air conditioners and Otis elevators.

It earned \$645m in 1984 on sales of \$16.3bn, and in the first quarter of this year had net income of \$137.6m and sales \$3.92bn. The sale of Inmont will leave it with about \$3bn in cash and short-term assets. Jonathan Carr in Frankfurt writes: BASF said the purchase of the Inmont group meant an important extension of its activities in a key region, as well as a major strengthening of its position in the coatings and dies sector.

It noted that through the deal it was firmly establishing itself in the world's biggest market for coatings and printing ink - that of the U.S. Moreover, internationally Inmont was the major supplier of printing ink in turnover terms.

World Weather

Area	Temp	Wind	Cloud	Temp	Wind	Cloud
Amsterdam	10	10	10	10	10	10
London	10	10	10	10	10	10
Paris	10	10	10	10	10	10
Rome	10	10	10	10	10	10
Madrid	10	10	10	10	10	10
Barcelona	10	10	10	10	10	10
Brussels	10	10	10	10	10	10
Frankfurt	10	10	10	10	10	10
Geneva	10	10	10	10	10	10
Basel	10	10	10	10	10	10
Stuttgart	10	10	10	10	10	10
Munich	10	10	10	10	10	10
Vienna	10	10	10	10	10	10
Zurich	10	10	10	10	10	10
Berlin	10	10	10	10	10	10
Hamburg	10	10	10	10	10	10
Köln	10	10	10	10	10	10
Düsseldorf	10	10	10	10	10	10
Leipzig	10	10	10	10	10	10
Dresden	10	10	10	10	10	10
Potsdam	10	10	10	10	10	10
Warsaw	10	10	10	10	10	10
Prague	10	10	10	10	10	10
Bratislava	10	10	10	10	10	10
Budapest	10	10	10	10	10	10
Belgrade	10	10	10	10	10	10
Sofia	10	10	10	10	10	10
Thessalonika	10	10	10	10	10	10
Atenas	10	10	10	10	10	10
Corfu	10	10	10	10	10	10
Rhodes	10	10	10	10	10	10
Mykonos	10	10	10	10	10	10
Santorini	10	10	10	10	10	10
Crete	10	10	10	10	10	10
Malta	10	10	10	10	10	10

Readings at mid-day yesterday.

C-Century D-Degrees F-Fahrenheit G-Gallons H-Hours I-Inches S-Sun T-Temperature

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Cigna to raise \$300m Euroloan

CIGNA Corporation, the U.S. insurance group, is raising \$500m through a three-year loan facility in the European market led by Credit Suisse First Boston and Morgan Guaranty.

The deal will allow Cigna to raise money through the sale of short-term Eurobonds or by asking banks to provide a letter of credit.

Bankers at the facility will also provide a backstop credit line for an annual fee of 10 basis points.

If drawn the credit will bear interest at a margin of 10 basis points over the London interbank offered rate (Libor) for 12-month deposits and 20 basis points if higher amounts are taken.

Separately Security Pacific Australia said it launched a \$200m, three-year facility under which it will issue certificates of deposit in the market ranging from one to twelve months.

the first major move taken by the French oil group's new chairman, M François Xavier Ortoli, who recently outlined his broad strategy. This will essentially consist of re-centring Total on traditional oil and gas activities, increasing exploration and production expenditure and making a big effort in the U.S.

Total this week reported higher earnings of FFr 1.7bn for 1984, Cofaz, which lost FFr 340m in 1983 and FFr 155m last year and is hoping to break even this year, was originally linked with Total as part of the Socialist Government's complex restructuring of the French chemicals industry.

DOME Petroleum, the debt-burdened Canadian energy producer, has successfully raised C\$121m (U.S.\$58m) in new equity since an international offering delayed several times by fears of an unrecuperative market.

Dome said yesterday that 27.9m units, each comprising a common share and a warrant to buy one share, were sold to three international underwriting syndicates, with its affiliate, Dome Mines, taking up 8.1m units.

Despite earlier concern that Dome's parlous financial position precluded a public share offering, an official at Dominion Securities in Pittsfield, the lead Canadian underwriter, said that the issue was about 14 times oversubscribed. He described the completion of the offering as "the most state-of-the-art road to financial respectability for Dome."

The infusion of new equity satisfies a condition laid down by Dome's creditors earlier this year as part of an agreement rescheduling over 80 per cent of the company's C\$8.4bn debt.

C\$8.4bn suffered losses of C\$1.9bn in the last three years following an acquisition spree in the late 1970s which was abruptly ended by the slide in world oil prices and higher interest rates. The company had a negative net worth of C\$420m at the end of 1984.

Completion of the rescheduling agreement encouraged Dome to proceed with the share issue. Another reason was a recent relaxation in Canadian energy policies.

● Dome Canada, in which Dome Petroleum holds a 48 per cent stake, increased its first-quarter net earnings from C\$8m to C\$10.4m or from 9 cents to 12 cents a share. Revenues rose from C\$44m to C\$53.2m.

DEUTSCHE Bank, West Germany's biggest commercial bank, looks set for another year of steady growth after raising credit volume and profits to the first quarter.

Dr F. Wilhelm Christians, one of the two speakers (co-chairmen) of the managing board, said partial operating profit was up by 10 per cent compared with one quarter of the full result for 1984.

Although the interest margin (the difference between interest earned and paid) had fallen, the bank had more than made up for this by raising average business volume by 8 per cent.

Algemeene Bank Nederland N.V.
 Banque Indosuez
 Banque Paribas Capital Markets
 Cr dit Commercial de France
 Credit Suisse First Boston Limited
 Kreditbank International Group
 Morgan Guaranty Ltd
 Soci t  G n rale
 Swiss Bank Corporation International Limited
 Westdeutsche Landesbank Girozentrale
 Amro International Limited
 Banque Internationale   Luxembourg S.A.
 Caisse des D p ts et Consignations
 Cr dit Lyonnais
 Genossenschaftliche Zentralbank AG - Vienna
 Merrill Lynch Capital Markets
 Nippon European Bank S.A.-LTCB Group
 Soci t  G n rale de Banque S.A.
 S.G. Warburg & Co. Ltd.

SCHERING, the pharmaceuticals and chemicals group based in West Berlin, boosted turnover 17 per cent in the first quarter of the year to DM 1.1bn (\$359m) as a result of strong sales abroad. Earnings were described as "somewhat higher" than in the same period last year.

Dr Klaus Pohle, spokesman for the board, said all signs point to another good year, after what he called a "very successful 1984." Earnings last year rose 72 per cent to DM 138m, and the dividend is to be raised 3 percentage points to 24 per cent.

The U.S. has now overtaken West Germany to become Schering's

largest single market, Dr Pohle said. Turnover in the U.S. last year made up more than 20 per cent of group sales. Schering's U.S. subsidiaries also contributed DM 34m to earnings, which he noted were bolstered by the strong dollar. A record 32 per cent of sales came from abroad.

Schering's diversification continued, with pharmaceutical sales making up 41 per cent of group turnover, compared with 52 per cent 10 years ago. Agro-chemicals sales, which have been greatly boosted by the acquisition of IFC in the UK, are now nearly as high as those of pharmaceuticals.

THE KINGDOM OF DENMARK
is hereby given that the Rate of Interest for the second
sub-period payable has been fixed at 3.75 p.a. and the
second sub-period payable for the second one-month sub-period of
U.S.\$10,000 nominal of the Notea will be U.S.\$77.3
amount will accrue towards the interest payment due
1985.

1985, London
bank N.A. (CSSI Dept.), Agent Bank

CITIBANK

AAW Bank Group	Banca Commerciale Italiana	Banca Mannesmann & C.	Banca Nazionale del Lavoro	Banco di Roma	BankAmerica Capital Markets Group
Bank Gutewiller, Kurz, Bungenfer (Overseas) Limited	Bank Ipca	Bank M&S	Bank M&S & Hope NV		Bankers Trust International Limited
Banque du Benelux S.A.	Banque Bruxelles Lambert (Suisse) S.A.	Banque de Commerce S.A.	Banque Credit Commercial	Banque Degroof S.C.S.	
Banque Française du Commerce Extérieur	Banque Générale du Luxembourg S.A.	Banque de Luxembourg S.A.	Banque Paribas Belgique S.A.		
Banque de l'Union Européenne	Baring Brothers & Co. Limited	Bayerische Hypothek- und Wechsel-Bank Aktiengesellschaft			
Bayerische Vereinsbank Aktiengesellschaft	Beitner Handels- und Frankfurter Bank	Caisse Centrale des Banques Populaires			
Caisse d'Epargne de l'Ebit du Grand-Duché de Luxembourg (Banque de l'Ebit)		Caisse Générale d'Epargne et de Retraite/Algemene Spaar- en Levensloze			
CERA-Centrala Raiffeisens Bank S.-Belgium	Citicorp Capital Markets Group	Commerzbank Aktiengesellschaft	Compagnie Monégasque de Banque		
County Bank Limited	Creditanstalt-Bankverein	Credit Commercial de Belgique S.A./Gemeentekrediet van België N.V.			
Credit Industriel et Commercial de Paris	Credit du Nord	Credito Italiano	Dai-ichi Kangyo International Limited		
Daiwa Europe Limited	Den norske Creditbank (Luxembourg) S.A.	S.A. Dewfin N.V.	Domestic Securities Pitfield Limited		
Dresdner Bank Aktiengesellschaft	Erskild Securities Scandinaviska Enskilda Limited		Fiji International Finance Limited		
Girozentrale und Bank der österreichischen Sparkassen Aktiengesellschaft		Goldman Sachs International Corp.	Hamrore Bank Limited		
IBJ International Limited	Istituto Bancario San Paolo di Torino	Kleinwort, Benson Limited	Kreditbank N.V.		
Lazard Frères et Cie	Lloyds Bank International Limited	Mitsubishi Finance International Limited	E van Lamsche & Co., Ltd.		
Morgan Grenfell & Co. Limited	Morgan Stanley International	Nederlandsche Middeleeuwse Bank nv	Samuel Montagu & Co., Ltd.		
The Nikko Securities Co., (Europe) Ltd.	Motomura International Limited	Orion Royal Bank Limited	De Nederlandsche Credietbank		
Postbank AG	Privatbanken A/S	Rabobank, Nederland	Solomon Brothers International Limited		
Société Générale Alsacienne de Banque, Luxembourg		Société de Crédit à l'Industrie/Nationale Maatschappij voor Krediet aan de Nijverheid	Shannon Leohr Brothers International		
Spärrbanken SDBS	Svenska Handelsbanken Group	Tatung International Bank (Europe) S.A.	Union Bank of Finland Ltd.		
Union Bank of Switzerland (Securities) Limited		United Overseas Bank (Luxembourg) S.A.	Westpac Banking Corporation		
Wood Gundy Inc.		Yamaichi International (Europe) Limited	Yasuda Trust Europe Limited		

NOTICE OF REDEMPTION TO HOLDERS OF BANQUE NATIONALE DE PARIS

Kuwaiti Dinars 10,000,000

7 3/4 per cent. Bonds due 1989

Fourth Mandatory Redemption Due 15th June, 1985 Of Kuwaiti Dinars 1,000,000

NOTICE IS HEREBY GIVEN that, pursuant to condition 5 (A) of the above mentioned Bonds, Kuwait Investment Company (S.A.K.), as Fiscal Agent, has drawn by lot, for redemption on 15th June, 1985, at 100% of the principal amount thereof through operation of the Sinking Fund, Kuwaiti Dinars 1,000,000 principal amount of said 7 3/4 per cent Bonds due 15th June, 1985, bearing the following distinctive numbers:

00281-00322	02959-03000	06092-06133
00472-00513	03387-03428	06559-06600
00589-00630	03799-03840	06801-06842
00776-00817	03944-03985	07575-07616
00959-01000	04117-04158	08163-08204
01217-01258	04519-04560	08777-08818
02631-02672	04880-04921	09340-09381
02739-02780	05316-05357	09787-09828

The Bonds specified above will become due and payable in Kuwaiti Dinars at the offices of Kuwait Investment Company (S.A.K.), Mubarak Al-Kabir Street, Kuwait City, State of Kuwait, or, at the option of the bearer, but subject to applicable laws and regulations, at Citibank, N.A., 336 Strand, London WC2R 1HB and at Banque Nationale de Paris (Luxembourg) S.A., 24 Boulevard Royal, Luxembourg by cheque drawn on a Kuwaiti Dinar account, with, or by a transfer to a Kuwaiti Dinar account maintained by the payee with a bank in Kuwait. From, and after, 15th June, 1985, interest on the above mentioned Bonds will cease to accrue.

Bonds should be surrendered for payment together with all unmatured coupons appertaining thereto, failing which the face value of the missing unmatured coupons will be deducted from the principal amount.

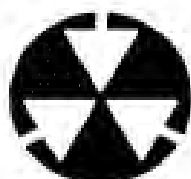
The aggregate principal amount of Bonds remaining outstanding after 15th June, 1985, will be Kuwaiti Dinars 6,500,000.

KUWAIT INVESTMENT COMPANY (S.A.K.) on behalf of
Banque Nationale de Paris

Dated: 15th May, 1985

All of these Securities have been offered outside the United States.
This announcement appears as a matter of record only.

New Issue/May, 1985



U.S.\$100,000,000

Toyo Trust Asia Limited

(Incorporated with limited liability in Hong Kong)

11 1/2% Guaranteed Notes Due 1992

Guaranteed as to payment of principal and interest by

The Toyo Trust and Banking Company, Limited

(Incorporated with limited liability in Japan)

Toyo Trust International Limited

Salomon Brothers International Limited

Lehman Brothers International

Sanwa International Limited

BankAmerica Capital Markets Group

Banque Nationale de Paris

Chase Manhattan Capital Markets Group

Citicorp Capital Markets Group

Enskilda Securities

Kidder, Peabody International Limited

Lloyds Bank International Limited

Merrill Lynch Capital Markets

Morgan Guaranty Ltd

Nomura International Limited

Société Générale de Banque S.A.

The Taiyo Kobe Bank (Luxembourg) S.A.

Bankers Trust International Limited

Baring Brothers & Co., Limited

Chemical Bank International Limited

County Bank Limited

Goldman Sachs International Corp.

Kleinwort, Benson Limited

Manufacturers Hanover Limited

Samuel Montagu & Co. Limited

Morgan Stanley International

Prudential-Bache Securities International

Swiss Bank Corporation International Limited

S.G. Warburg & Co. Ltd.

30th April, 1985

These securities have been sold outside the United States of America and Japan. This announcement appears as a matter of record only.

NEW ISSUE



A/S JYSKE BANK

(Incorporated in the Kingdom of Denmark with limited liability)

U.S. \$40,000,000

Partly Subordinated Floating Rate Notes Due 1994
(with the right to subordinate in full)

Issue price 100 per cent.

Nomura International Limited

BankAmerica Capital Markets Group

Takugin International Bank (Europe) S.A.

Banque Indosuez

Merrill Lynch Capital Markets

Swiss Bank Corporation International Limited

Yasuda Trust Europe Limited

Banque Bruxelles Lambert S.A.

Finanz- & Investmentbank AG

Canada expects BT to toe line

By Bernard Simon in Toronto

THE Canadian Government expects British Telecom to comply with local production and other undertakings given in recent years by Mtel, the telecommunications equipment manufacturer in which BT proposes to take a controlling interest.

The CS320m (\$233m) acquisition, announced last Friday, has raised fears in some quarters that Canada will lose much of the know-how developed in the past decade by Mtel, one of the country's leading high-technology companies. There is also concern that BT will transfer much of Mtel's manufacturing capacity elsewhere, with a consequent loss of jobs in Canada.

Mr Sinclair Stevens, Industry Minister, told parliament in Ottawa that BT would have to respect the conditions imposed on Mtel since 1980 as part of government grants and other financial assistance given to the company. Mtel suffered a CS32.1m loss last year.

These conditions include the local manufacture of all products developed with the help of grants and capital investment up to September 1987 equal to double the amount of the government contributions. In addition, Mtel has agreed to manufacture three-quarters of its micro-electronic products in Canada. The grants total around CS30m.

The takeover is still subject to vetting by Canada's Foreign Investment Review Agency (FIRA). The Conservative Government in Ottawa has not turned down a single foreign investment application since coming to office last September, but FIRA frequently asks new investors for undertakings related to job creation, plant location or technology transfers before recommending approval.

A new foreign investment law, significantly easing the screening process, is expected to be passed by parliament next week. But because of its size, the BT/Mtel deal will also be subject to review under the new legislation.

MIP plans to buy 49% of Van Doorne

By Laura Raun in Amsterdam

THE Dutch corporation for industrial projects (MIP), a mixed venture-capital company, plans to take a 49 per cent stake in Van Doorne's Transmissie (VDI) in a sharp reversal of a refusal to buy into the automatic-transmission maker three months ago.

The MIP's turnaround apparently was prompted by assurances of continued financing by the other shareholders, Volvo Car, Dutch subsidiary and Fiat of Italy, and a bank consortium. Also, the Dutch Government, which owns 49 per cent of the MIP, is believed to be keen to keep the innovative technology of the continuously variable automatic transmission (CVT) in Dutch hands.

Volvo Car, which itself is 70 per cent owned by the Dutch state, will sell about one-third of its 39.5 per cent stake in VDI to the MIP. The Dutch state also will sell its 39.5 per cent share to the MIP, which operates independently from the Government.

The 11th-hour rescue is the second such operation in a half year for VDI. The Dutch Government provided a financial lifeline last November with its acquisition of Borg-Warner's unwanted 24 per cent share plus a Fl 5m (\$1.44m) bridging loan. That was supplemented by Fl 4.9m in fresh capital from Volvo and Fiat, which holds the remaining 24 per cent of VDI.

NOTICE OF REDEMPTION

US\$25,000,000

AGA Aktiefond 9 1/2% Bonds due 15th June 1988

Notice is hereby given to the Bondholders of the above mentioned issue, that the amount redeemable on June 15th, 1988 is US\$25,000,000 - less amount outstanding: US\$13,000,000.

For AGA Aktiefond by Bank of America International S.A., Luxembourg
Principal Paying Agent,
May 15, 1985, Luxembourg

To the Holders of

FORD MOTOR CREDIT COMPANY

Floating Rate Notes

due November 1991

Pursuant to the Fiscal Agency Agreement dated as of November 1, 1984 (the "Agreement") between Ford Motor Credit Company and The Chase Manhattan Bank (National Association), as Fiscal Agent, notice is hereby given that the Rate of Interest applicable to the above Notes for the Interest Period May 15 to November 15, 1985, as determined in accordance with the provisions of the Agreement, is 8 1/2% per annum. The amount of interest payable in respect of each US\$25,000 principal amount of Notes is US\$2,236.11, payable November 15, 1985.

THE CHASE MANHATTAN BANK

(National Association),
as Fiscal Agent

Dated: May 15, 1985

INTL. COMPANIES and FINANCE

FT INTERNATIONAL BOND SERVICE

The list shows the 200 latest international bond issues for which an adequate secondary market exists. The following are closing prices for May 14.

U.S. DOLLAR						YEN STRAIGHTS					
Change in						Change in					
Issued	Par	Offer	Change	Yield	Issued	Par	Offer	Change	Yield		
Amer Credit 12 1/2% 88	150	100 1/4	+ 1/8	+ 11.10 1/2	Austia Republic 7 5/8	30	97 1/4	+ 1/8	+ 8 1/4 1/2		
Austria Rep 13% 92	100	110	+ 1/8	+ 11.14 1/2	BP Capital 11 1/2% 92	17	101 1/4	+ 1/8	+ 8 1/4 1/2		
Bank of Tokyo 12 1/2% 92	100	104 1/2	+ 1/8	+ 11.15 1/2	Can Nat Mort 9 1/2	50	98 1/4	+ 1/8	+ 8 1/4 1/2		
Bank of Tokyo 13% 91	100	104 1/2	+ 1/8	+ 11.15 1/2	World Bank 5% 90	25	98 1/4	+ 1/8	+ 8 1/4 1/2		
BP Capital 11 1/2% 92	150	99 1/4	+ 1/8	+ 11.12 1/2	World Bank 5% 94	20	97 1/4	+ 1/8	+ 8 1/4 1/2		
Canada Nat Tel 12 1/2% 91	100	118 1/2	+ 1/8	+ 11.24 1/2	Average price change on day 5 on week 1 = 0						
Canada Nat Tel 13% 90	100	107 1/2	+ 1/8	+ 11.18 1/2	Change in						
Canadian Pac 12 1/2% 89	75	104 1/2	+ 1/8	+ 11.17 1/2	Issued	Par	Offer	Change	Yield		
CBS Inc 11 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2	OTHER STRAIGHTS						
Chevron USA 12 1/2% 89	-600	103 1/2	+ 1/8	+ 11.12 1/2	Bell Canada 12 1/2% 87 CS	125	101 1/4	+ 1/8	+ 11.18 1/2		
Coca Cola 11 1/2% 91	100	104 1/2	+ 1/8	+ 11.18 1/2	British Columbia 12 00 CS	120	100 1/2	+ 1/8	+ 11.18 1/2		
Commerzbank 11 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2	Can Nat Ref 12 1/2% 85 CS	100	100 1/2	+ 1/8	+ 11.18 1/2		
Denmark Kingdom 11 1/2% 91	100	99 1/4	+ 1/8	+ 11.18 1/2	Can Nat Ref 12 1/2% 85 CS	100	100 1/2	+ 1/8	+ 11.18 1/2		
Denmark Kingdom 12 1/2% 91	100	100 1/2	+ 1/8	+ 11.15 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Denmark Kingdom 13% 88 KW	100	102 1/2	+ 1/8	+ 11.15 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
E.ON AG 11 1/2% 90	100	100 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
E.E.C. 11 1/2% 90	100	101 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
ELB 11 1/2% 85	200	107 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
ELB 13 1/2% 85	200	107 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Export Dev Corp 12 1/2% 89	1800	12 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Exxon Capital Corp 8 1/2% 2004	100	97 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Ford Motor Credit 11 1/2% 95	100	97 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
General Electric 12 1/2% 89	100	100 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
IBM Credit Corp 11 1/2% 87	200	103 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Indust Bank Japan 12 1/2% 89	100	107 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Indust Bank Japan 13% 91	125	107 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Int-Amer Dev 12 1/2% 91	150	100 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Japan Air Lines 12 1/2% 94	180	113 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Korea Nat 11 1/2% 90	100	100 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Kolmogorov 11 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
L.T.C.B. 12 1/2% 91	100	100 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Malayan 11 1/2% 95	100	104 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Mellon Bank 13 1/2% 89	100	104 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Mitsubishi 12 1/2% 89	100	104 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Mitsubishi 13 1/2% 89	100	104 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Mitsubishi 14 1/2% 89	100	104 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Mitsubishi 15 1/2% 89	100	104 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Mitsubishi 16 1/2% 89	100	104 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Mitsubishi 17 1/2% 89	100	104 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Mitsubishi 18 1/2% 89	100	104 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Mitsubishi 19 1/2% 89	100	104 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Mitsubishi 20 1/2% 89	100	104 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Mitsubishi 21 1/2% 89	100	104 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Mitsubishi 22 1/2% 89	100	104 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Mitsubishi 23 1/2% 89	100	104 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Mitsubishi 24 1/2% 89	100	104 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Mitsubishi 25 1/2% 89	100	104 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Mitsubishi 26 1/2% 89	100	104 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Mitsubishi 27 1/2% 89	100	104 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Mitsubishi 28 1/2% 89	100	104 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Mitsubishi 29 1/2% 89	100	104 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Mitsubishi 30 1/2% 89	100	104 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Mitsubishi 31 1/2% 89	100	104 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Mitsubishi 32 1/2% 89	100	104 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Mitsubishi 33 1/2% 89	100	104 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Mitsubishi 34 1/2% 89	100	104 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Mitsubishi 35 1/2% 89	100	104 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Mitsubishi 36 1/2% 89	100	104 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Mitsubishi 37 1/2% 89	100	104 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Mitsubishi 38 1/2% 89	100	104 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Mitsubishi 39 1/2% 89	100	104 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Mitsubishi 40 1/2% 89	100	104 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Mitsubishi 41 1/2% 89	100	104 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Mitsubishi 42 1/2% 89	100	104 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Mitsubishi 43 1/2% 89	100	104 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Mitsubishi 44 1/2% 89	100	104 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Mitsubishi 45 1/2% 89	100	104 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Mitsubishi 46 1/2% 89	100	104 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Mitsubishi 47 1/2% 89	100	104 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Mitsubishi 48 1/2% 89	100	104 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Mitsubishi 49 1/2% 89	100	104 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Mitsubishi 50 1/2% 89	100	104 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Mitsubishi 51 1/2% 89	100	104 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Mitsubishi 52 1/2% 89	100	104 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
Mitsubishi 53 1/2% 89	100	104 1/2	+ 1/8	+ 11.18 1/2	Canada 12 1/2% 92	100	100 1/2	+ 1/8	+ 11.18 1/2		
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INTL. COMPANIES & FINANCE

Paul Taylor on sale of a defence giant to benefit medicine
Hughes Aircraft flies into view

HUGHES AIRCRAFT, the corporate creation of the late aviation pioneer, billionaire and recluse Howard Hughes, has not built a plane in years.

But a bulging defence and electronics order book has made the El Segundo, California-based group, which once produced the legendary wooden Spruce Goose and the experimental F-1 Racer, one of the hottest corporate properties ever to go under the auctioneer's hammer.

Tomorrow, assuming no last minute hitch, Morgan Stanley, the Blue Chip Wall Street investment bank, will select the winning sealed bid for the privately held company—put up for sale by the Howard Hughes Medical Institute—among some of the biggest names in corporate America.

Among the corporations expected to have submitted sealed bids in the multi-billion dollar auction—the largest ever involving a private company—are General Motors and Ford, of the motor companies; and Signal Companies, and Allied Corporation. Other potential bidders mentioned over the last few months have included Boeing, Lockheed, Rockwell, United Technologies and General Electric until it said recently that it would not enter the final bidding round.

After receiving the recommendation of Morgan Stanley, and assuming the bids match up to expectations, the ultimate winner will be selected by the medical institute's nine-member

board appointed last year, at the end of a six-year bitter legal battle over control of the company after Howard Hughes' death in 1976.

The new trustees put Hughes Aircraft up for sale to settle an even longer running dispute with the U.S. Internal Revenue Service (IRS) which has insisted that the non-profit institute must distribute more cash if it is to retain its tax-free charitable status.

Wall Street and the institute believe Hughes Aircraft, spun off from its previous parent, Hughes Tool, in 1953 as part of a tax shelter scheme devised by Howard Hughes which ensured he retained control over the business, could fetch between \$4.5bn and \$6bn—effectively limiting potential buyers to those, like GM which has almost \$8.45bn in cash, with exceptionally deep pockets.

For that price the auction winner will acquire one of the nation's premier defence contractors, a major manufacturer of satellite systems and one of the most highly regarded advanced electronics groups in the U.S.

Last year, Hughes Aircraft had sales of around \$4.9bn, roughly the same as in 1983, ranking it as the 9th largest defence contractor. Revenues would have been considerably higher had it not been for the uncharacteristic embarrassment to Hughes of having the Pentagon temporarily halt acceptance of some missile systems from the group's Tucson, Arizona plant, after a

series of disclosures about poor quality controls and faults in the weapons systems. Hughes also, voluntarily, suspended shipment of a radar system it manufactures for the F-14, F-15 and F-18 jet fighters.

The "missile crisis," which involved the Air Force's Phoenix missile and the Army's Tow missile, was a short-lived hiccup for Hughes which, despite last year's flat sales saw new orders increase by 28 per cent to \$6bn, and its year-end order backlog grow by almost 9 per cent to just under \$12bn.

There are, however, several specific features of Hughes' business operations which make the company particularly attractive to a potential buyer. Its six divisions, each with more than \$500m a year in sales, and designed to be complementary to each other, manufacture a wide range of missile systems, radars, communications satellites and laser weaponry and are involved in President Reagan's strategic defence initiative (Star Wars).

Among the group's innovations is the Space Shuttle's mechanical arm which hurls satellite's out of the space vehicle's cargo bay doors Frisbee-style.

This broad spread of business makes Hughes Aircraft considerably less vulnerable to defence programme spending cuts than some of its rivals. Although the company derives around 80 per cent of its revenues from military contracts, these

revenues are spread between 4,000 contracts, 1,500 programmes and 12,000 products and services.

No single project accounts for more than 6 per cent of Hughes' total sales, and the group's ten largest projects together total less than 40 per cent.

Such diversity within the high-tech sector has also helped Hughes Aircraft maintain consistently high earnings. Although these are not made public, Wall Street believes the group earned around \$250m last year—despite the missile problems—and that its profit margins exceed the 4 per cent of sales which are typical of the aerospace sector.

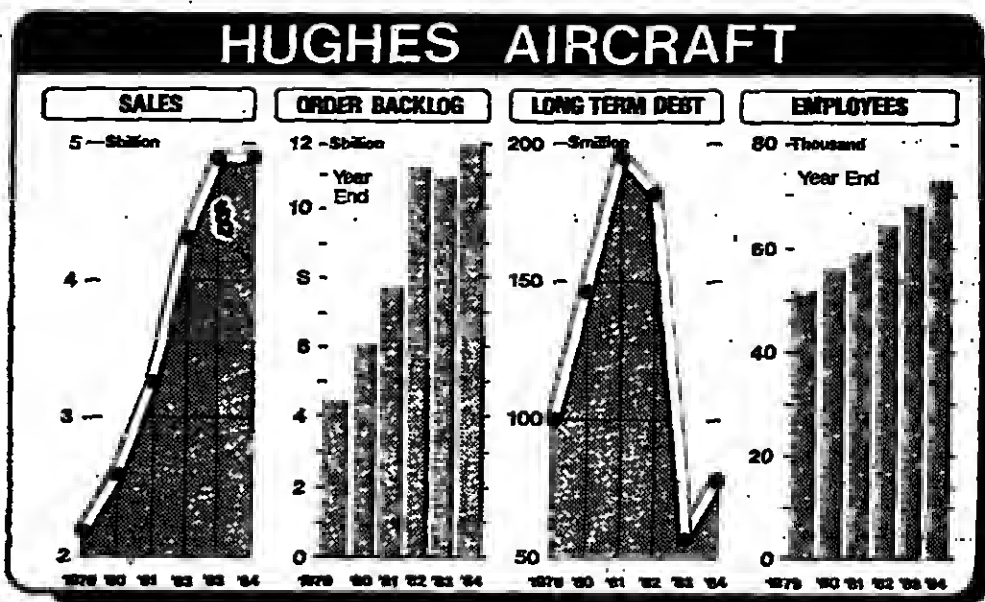
Hughes Aircraft has also been a big spender on capital equipment. Last year, its capital spending totalled over \$430m, more than 30 per cent up on the previous year, and company research and development spending is in excess of \$250m a year.

By ploughing previous years' profits back into its business while throwing off relatively miserly sums to its charitable parent in the form of dividends (\$50m last year compared with \$85m in 1983), Hughes Aircraft has maintained a strong balance sheet. Long term debt totals \$78.1m, or about 15 per cent of its estimated \$520m in equity.

Last but not least, Hughes has a reputation as being a well managed and innovative company stacked out with graduate scientists under the leadership of Mr Allen Fuckett, Hughes Aircraft's 65-year-old chairman. One third of its 73,800 employees are engineers.

For them one thing seems certain. After over 30 years shielded from the glare of publicity under the secretive Hughes umbrella, life will be different as part of a public company. Even if none of the bids matches up to price expectations, the institute is expected to turn Hughes Aircraft into a public company through a public share offering. The institute has ruled out the piecemeal break-up of the company.

The sale may also resolve another oddity of the Howard Hughes legacy—the irony of military weapons sales supporting medical research. In the process, medical research in the U.S. could receive a major boost and the cash generated by the sale will lift the Hughes Medical Institute into the ranks of other major charitable foundations, like the Ford Foundation which has an endowment of \$3.5bn.



NEW ISSUE

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May 1985

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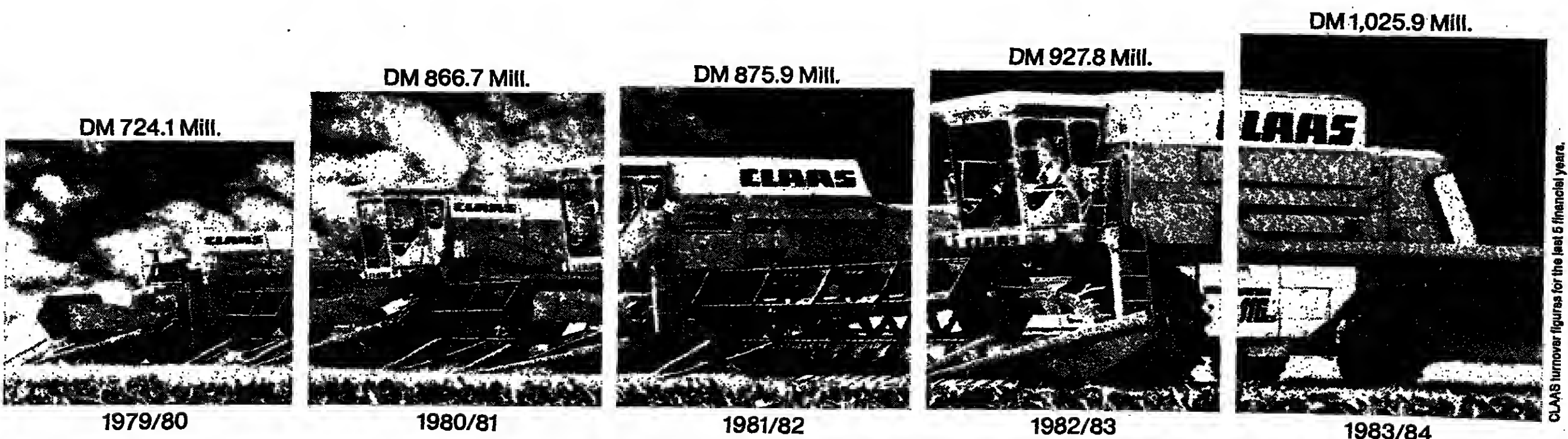
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CLAAS turnover figures for the last 5 financial years.

Stores sector lifts Sears above forecasts

BY FRANK KANE

DESPITE A downturn of 25.6m in Sears Holdings' U.S. footwear operations, the group produced better than expected pre-tax profits for the 1984/85 year with a record result of £175.2m. This was some 53m more than most market forecasts, and £18.1m up on last year.

Sears was able to offset the U.S. profit slip with a strong performance from its stores division, which added £10.4m to the trading result. Most of this came from the departmental stores sub-group, which includes the Selfridges and Lewis's outlets, and which improved its trading performance by £7.4m to £26.1m.

Group turnover topped the £20m mark for the first time, with trading profits ahead from £154.6m to £167.5m. Trading margins were maintained at around the 83 per cent level.

Mr Geoffrey Maitland-Smith, the chairman and chief executive, said yesterday that he expected no real upturn in the U.S. until the second half of the current year. In common with most retailers there, he said Sears suffered from the depressed consumer market, resulting from the overstocking that occurred last year.

He described current trading in the group's stores division as very good indeed, with Lewis's in particular benefiting from the buoyant tourist trade in London and enjoying the gains from the re-stocking of recent years. Jewellery was having an especially good period.

Mr Maitland-Smith calculated that the stores division made the company some £22.5m over the year in lost revenue.

On the Foster Brothers Clothing acquisition last month, which takes Sears into the multiple retailing of men's clothes for the first time, he was unable to quantify the potential return in the current year, but gave some details of his plans for the future.

Foster's loss-making Peter Richards chain of womenswear outlets is to be split between Sears, Wallis and Miss Selfridge shops, and some would be re-furbished. Foster's retail carpets division will be sold.

Over the year, the chairman indicated that he would be looking for a 10 per cent rise in taxable profits for the current year, assuming a rate of inflation of around 5 per cent.



Mr Geoffrey Maitland-Smith

The directors are to recommend a final dividend of 2.3p per share, up from 1.8p, which lifts the total to 3.9p. This is well covered by earnings per share stated at 8.1p (7.1p), and after the total distribution of £40.4m against £33.6m

the group is able to transfer £88.8m to reserves, an increase of £9.9m.

An analysis of the trading result shows that overall the footwear division was static, with the U.S. profit decline counter-balanced by an identical rise in Europe for an unchanged return of 59.6m. Footwear sales came to £703.5m (£671.9m), with the U.S. side contributing £188.3m (£150.4m).

Most parts of the stores division showed profit rises, with departmental stores improving from £18.7m to £26.1m on turnover ahead by £22.5m to £30.2m. Turnover and trading profits of the rest of the sector were: multiple fashion and sports goods £117.6m (£101.1m) and £12.5m (£10.1m) respectively; jewellery £56.1m (£53.4m) and £2.7m (£1.1m); other stores activities £3m (£1.1m); the Miss Erika operation in the U.S. improved turnover from £22.4m to £23.1m but saw trading profits slip from £5.2m to £3.9m.

Inter-group concessions accounted for £22.4m (£27.5m) but the motor vehicle sales and service division was relatively static following the sale of the Silcock and Colling offshoot last

August. This added £18.8m (£31.6m) to sales and turned it into an unchanged trading profit of £1.2m. Sales and services continuing operations improved profits slightly from £8.2m to £8.8m on turnover £26.6m up at £220.9m.

Sears' licensed betting offices at controls the William Hill Organisation made £11.4m (£11m) at the trading level on turnover up from £429.2m to £479.1m.

In the property development operations, housebuilding and construction turnover improved from £26.2m to £28.9m, but profits fell from £9.1m to £8m. Rental income provided profits of £7.6m (£6.3m) on sales up from £7.6m to £9.3m.

In engineering, profits improved by £0.9m to £2.2m while turnover fell from £43.8m to £32.2m.

Of the group's related companies, Asprey the Jeweller added £1.6m (£1.3m) to sales, while CIT turned over £2m (£1.2m).

The tax charge came to £65.1m against £62.7m, to leave net profits at £110.1m (£96.4m), with minorities unchanged at £0.6m.

See Lex

Debenhams 'not worth £450m' says Burton

By Lionel Barber

MR RALPH HALPERN, chairman of the Burton menswear group, yesterday dashed speculators' hopes that he was about to launch a bid for Debenhams, Britain's second largest stores group.

Mr Halpern said Burton had "taken a look at Debenhams" but he added: "We are not convinced that Debenhams is worth its present market valuation of around £450m."

His statement appears to have been triggered by weekend comments by Mr Robert Thornton, Debenhams' chairman, that the group intended to fight off any hostile takeover bid through a management buy-out costing more than £600m.

"We were interested in press reports that the chairman of Debenhams would himself consider a management-led offer for his company. I can say with emphasis that Burton would not under present circumstances be a bidder for Debenhams at the sort of prices attributed to Mr Thornton in the press," said Mr Halpern.

Debenhams' share price plummeted 23p after Mr Halpern's Stock Exchange statement but recovered slightly, closing last night at 307p, down 21p on the day.

Burton shares closed at 471p, up 14p on the day.

However, Debenhams countered by welcoming the announcement, adding that its market capitalisation was more than justified by recent record results and prospects.

In the past six weeks, Debenhams' shares have risen 55p on the back of speculation about a bid from either Burton, Habitat-Mohercare, or Harris Queensway, all major retailing groups.

Debenhams and its merchant bank advisers, Kleinwort Benson, have been considering a management buy-out, backed by UK and U.S. investors, for at least nine months, according to sources close to the company.

As Mr Thornton said in an interview on Channel Four last Sunday: "A year ago we took the view that 1985 would be the most difficult year to avoid a takeover because of the success of our business."

Mr Thornton's comments helped to push the share price up 11p on Monday, though they came just days after the group revealed a 24 per cent rise in pre-tax profits to £14m, in the year ended last January, on turnover of £723m.

IBM dealer heads for market with £85m price tag

BY STEFAN WAGSTYL

ONE OF THE UK's largest computer leasing companies, IBL, is coming to the stock market at the end of the month, with a market value of about £85m.

Barclays Merchant Bank is seeking a listing for the company with a fixed price offer for the sale of about 25 per cent of the equity.

IBL will be second only to Atlantic Computers by market capitalisation among quoted UK computer leasing companies, larger than Comcap, Dataserv and United Leasing.

Like its rivals, IBL makes most of its money from the financing and distribution of IBM mainframe computers and peripherals, both new and second-hand.

The company was formed in 1977 by a team of executives from the European leasing subsidiaries of the U.S. conglomerate, Tiger International. IBL says its particular strength lies in its development of international leasing, especially in continental Europe. Britain accounts for only about one third of turnover.

Turnover has grown rapidly from £14.4m in 1980 to £174.5m in the year to last December. Results improved steadily from a loss of £392,000 in a profit of £3.2m in 1983, when the group was building up its network of offices in 15 countries including the U.S. Last year profits leapt ahead to more than £7m, pre-tax, as the company began to reap the rewards of this investment.

IBL sees its 1984 expansion continuing into 1985, with a substantial increase in turnover already recorded for the first three months. Its customers are placing orders for a new range of central processing computers, announced recently by IBM.

The company says it is coming to the market to raise funds for further expansion, particularly in the U.S. The group's co-founders, Mr Philip Coussens, the 40-year-old chairman and managing director, and Mr John Henderson, the deputy managing director, also aged 40, are both selling a part of their stake. They will see their holding in the company fall from 100 per cent to a little more than 50 per cent.

Mr Coussens said yesterday that the company's success depended on creating a strong base of customers in several countries. Computers leased new to one client could then be moved on to another when the original customer replaced the equipment.

The second-hand business accounted for a greater part of profits than leasing new machines, he added.

There were marked differences in market conditions in different countries. Customers in the Netherlands and in Sweden were keen on new equipment, while in France there was strong demand for second-hand as well as new computers, said Mr Coussens.

IBL is based in Virginia Water, Surrey, and employs 162 people.

Trading in BAE options begins

By Stefan Wagstyl

THE Stock Exchange is opening a market in options today in British Aerospace shares, which are trading heavily in the wake of the combined Government and company offer for sale.

The Stock Exchange said it confidently anticipated that investors would be as interested in BAE options as they were in British Telecom.

BAE shares closed 3p down at 415p last night, following heavy trading in which some investors who bought shares at 375p in the offer for sale took their profits and others added to their portfolios.

Meanwhile, at the company's annual meeting yesterday, Sir Austin Pearce, the chairman, described the offer for sale (in which the Government sold its remaining stake in the company and BAE raised new funds) as "a great success."

The Government said last night that the total fees and commissions paid to underwriters, brokers to the offer and institutional investors who accepted shares in a placing carried out in advance of the general offer for sale amounted to £7.5m, including VAT.

In addition, Lazard Brothers, the "government's" financial advisers, will receive a fee, and commissions of 14 per cent will be paid to all brokers and licensed dealers on shares sold to the public.

The Government estimated its total costs would be about £10m, with a further £8m borne by BAE.

Land Securities rises 14% to £96m

HIGHER RENTAL and interest income helped push pre-tax profits of Land Securities to £96m for the year to end-March 1985, compared with £84m—a 14 per cent increase.

Total income for this property developer and manager, rose from £137.7m to £148.4m, and the pre-tax figure was after property outgoings and administration expenses of £33.5m against £34m. While interest payable was little changed at £18.7m, net rents and interest increased by £11.2m to £114.9m.

Total dividend payout for the year is lifted from an adjusted

7.267p to £11p with a final 5.5p (4.91p) proposed. Stated net earnings per £1 share are shown as 11.72p (10.23p) basic.

The net asset value per share at end-March 1985 was 401p per share, compared with 377p a year earlier. This is lower than expected, and the company's shares fell 14p to 297p.

The tax charge was slightly higher at £26.6m (£23.3m).

The directors say the valuation at end-March 1985 resulted in a value of £2.34bn being placed on the group's portfolio, exceeding the valuation at end-1984 by £147.3m.

During the period expenditure

on properties amounted to £69.4m and the aggregate book value of properties sold was £24.9m. Taking these factors into account the surplus on revaluation was £102.8m.

Group net assets at March 31 amounted to £2.02bn on which basis the net asset value per share is calculated.

The directors said in their report last year that over 1m sq ft of air-conditioned office space in the City, West End and Victoria was being redeveloped or refurbished. By the end of March 1985, 912,000 sq ft of this space had been completed or virtually completed, with most of it let

or the conditions for letting agreed. The balance is not due for completion until later this year or next year.

At end-March group short term funds amounted to £25.1m and agreed realisations of property, for which contracts had not yet been exchanged, aggregated £9.4m. At first date capital commitments, including expenditure phased over periods of up to two years to complete developments, totalled £46.1m.

Bank facilities available to the group have been increased to £50m.

See Lex

Recount follows Energy victory

BY ALEXANDER NICOLL

THE hotly contested reverse takeover bid for Energy Services and Electronics by Shell company Peak Holdings failed yesterday in a very close-run decision.

Peak, which was acting with two businessmen who would have injected £8m into the combined group and assumed its management, won acceptance from holders of 49.9 per cent of Energy Services, an electronic equipment rental and sales group.

Lloyds Bank, charged with receiving acceptances, was conducting a recount last night. It was not expected to produce a different result, Peak said that unless a further announcement is made before the opening of trading today, the offer has lapsed.

In late business, Energy

Services shares slumped to 90p, down 5p on the day after rising as high as 106p as the offer drew to a close. Shares in Peak fell to 201p, down 61p, after rising as high as 31p during the day.

Peak was offering seven of its shares for two Energy Services shares, advised by Hambros Bank, was offering seven of its shares for two Energy Services shares, and success would have given its existing shareholders just 5 per cent of a combined group with the two businessmen, Mr Julian Askin and Mr Hugo Biermann, holding 17 per cent.

Current Energy Services holders would have continued to hold the remainder.

Energy Services, advised by J. Henry Schroder Wages, contended that profits were increasing and that a change in management was unnecessary.

The group's loss-making subsidiary, New Audio, which makes sound mixing equipment, was now receiving orders for newly-developed equipment and could be sold "for full value," it said.

The bidders argued that Energy Services lacked direction and that the main profitable subsidiary, Livingston Hire-of which Mr Askin was once managing director—could be developed beyond the existing management's plans.

Sniping between the two sides continued until the last moment yesterday, with Energy Services denying what it said were suggestions by Peak that Mr Patrick Robson, managing director of Livingston, would work under new Peak management.

Pearson offshoot in £20m deal with Thomson

Pearson yesterday disclosed that its publishing subsidiary, Penguin, has paid £20.7m for the bulk of International Thomson Organisation's UK trade book publishing interests.

These include the imprints, Michael Joseph, Hamish Hamilton, Sphere Books, Rainbird Publishing Group, TBL Book Service but exclude Janey's publishing.

Pearson has used a vendor placing of 5.79m shares with institutions to pay for the deal which it says will strengthen and protect copyrights within the Penguin Group.

Pearson, which owns the Financial Times, said that the purchased business produced pre-tax profits last year of £9.6m (before certain exceptional costs) on turnover of around £26m. Net assets are estimated at £14.6m.

Phoenix chairman to fight 'back door' takeover plan

Phoenix Timber Group said yesterday that an attempt was being made to gain control of the company through a boardroom shake-up but Mr Dennis Cooke, the chairman, made clear he would fight the plan.

The Essex-based timber importer and processor said it had received a requisition to hold an extraordinary general meeting at which resolutions would be proposed to appoint to the board Mr David Edelman, Mr Geoffrey Hoffman and Mr Michael Teacher. The same resolution would also remove any additional directors appointed between the date of the requisition and the EGM.

It said, the requisitionists include Mr Michael Herrmann, a director of Phoenix, who speaks for 24.24 per cent of the company's shares, mainly through a stake held non-beneficially; and a consortium consisting of Equity and Share Co (London), which holds 10.1 per cent of ordinary shares, and a Spanish

Phoenix chairman to fight 'back door' takeover plan

BY MARTIN DICKSON

company, Solorasa, controlling a further 1.3 per cent.

Mr Edelman and Mr Hoffman are believed to be associated with Equity and Share.

Phoenix said that if the resolutions were to be legally implemented, the concert party and Mr Herrmann would control the board.

It added that the company's three directors other than Mr Herrmann were considering the proposals. But Mr Cooke later made clear that he would fight the plan. "Where's the offer to shareholders?" he asked. "You cannot gain control of a company by the back door."

Phoenix is believed to have approached the Take-over Panel on the issue. The company's shares closed last night at 136p, down 4p, on the day.

Phoenix reported profits of £388,000 in the year to March 1984 following three years of losses though first half profits in the 1984/85 year fell by £100,000 to £427,000.

Land Securities

Abridged summary of Results for the Year ended 31st March, 1985

	31.3.85 £m	31.3.84 £m	Increase %
Total income	148.4	137.7	7.8
made up of			
Rental income	132.1	116.1	
Service charges and other recoveries	12.2	12.6	
Income from short term deposits	4.1	9.0	
Net rents and interest receivable	114.9	103.7	10.8
Income on ordinary activities, before taxation	95.6	84.0	13.8
Taxation	36.6	33.3	
Income available for distribution	59.0	50.7	16.4
Dividends per share paid (2.6p) and proposed (5.55p); 1984: 7.267p	41.0	36.0	
Earnings per share	11.72p	10.23p	14.6
Dividend cover - times	1.44	1.41	

The Knight Frank & Rutley valuation of the portfolio as at 31st March, 1985, in which each property was valued individually and in its present state, totalled £2,335.7m, an increase of £147.3m over the valuation at the previous year end. Taking into account expenditure on properties, £69.4m, and the aggregate book value of properties sold, £24.9m, during the period, the surplus on revaluation was £102.8m, an increase of 4.6% (1984: 6.5%).

Having included the valuation in the Accounts at 31st March, 1985 and without adjusting for any taxation payable in the event of properties being sold, the Consolidated net assets of the Group at that date amounted to £2,016.5m, on which basis the net asset value per share is 401p.

In last year's Directors' Report reference was made to the fact that over 1 million sq. ft. of air-conditioned office space in the City, West End and Victoria was in the process of being redeveloped or refurbished. By the end of March 1985, 912,000 sq. ft. of this space had been completed or virtually completed, of which 852,000 sq. ft. had been let or the terms for letting agreed and 60,000 sq. ft. completed and not let. The balance, 156,000 sq. ft., is not due for completion until later this year or next year.

At 31st March, 1985 Group short term funds amounted to £25.1m and agreed realisations of property, for which contracts had not yet been exchanged, aggregated £9.4m. At that date capital commitments, including expenditure phased over periods of up to two years to complete developments, totalled £46.1m. The bank facilities available to the Group have been increased to £50m.

The full Report of the Directors and the Accounts for the year containing an unqualified Report by the Auditors, a detailed property portfolio review and a list of the Group's major property holdings are due to be distributed to Shareholders on 30th May, 1985. Non-shareholders who would like a copy are requested to write to The Secretary—

LAND SECURITIES PLC Devonshire House, Piccadilly, London W1X 6BT

CLUE: 5 years of consistently good earnings per share. For the full story, send for the 1984 Report and Accounts which clearly explains the figures.

BTR PLC, SILVERTOWN HOUSE, VINCENT SQUARE, LONDON SW1P 2PL. 01-834 3848.

0972-7861 0973-7861 0974-7861 0975-7861 0976-7861 0977-7861 0978-7861 0979-7861 0980-7861 0981-7861 0982-7861 0983-7861 0984-7861 0985-7861 0986-7861 0987-7861 0988-7861 0989-7861 0990-7861 0991-7861 0992-7861 0993-7861 0994-7861 0995-7861 0996-7861 0997-7861 0998-7861 0999-7861 1000-7861 1001-7861 1002-7861 1003-7861 1004-7861 1005-7861 1006-7861 1007-7861 1008-7861 1009-7861 1010-7861 1011-7861 1012-7861 1013-7861 1014-7861 1015-7861 1016-7861 1017-7861 1018-7861 1019-7861 1020-7861 1021-7861 1022-7861 1023-7861 1024-7861 1025-7861 1026-7861 1027-7861 1028-7861 1029-7861 1030-7861 1031-7861 1032-7861 1033-7861 1034-7861 1035-7861 1036-7861 1037-7861 1038-7861 1039-7861 1040-7861 1041-7861 1042-7861 1043-7861 1044-7861 1045-7861 1046-7861 1047-7861 1048-7861 1049-7861 1050-7861 1051-7861 1052-7861 1053-7861 1054-7861 1055-7861 1056-7861 1057-7861 1058-7861 1059-7861 1060-7861 1061-7861 1062-7861 1063-7861 1064-7861 1065-7861 1066-7861 1067-7861 1068-7861 1069-7861 1070-7861 1071-7861 1072-7861 1073-7861 1074-7861 1075-7861 1076-7861 1077-7861 1078-7861 1079-7861 1080-7861 1081-7861 1082-7861 1083-7861 1084-7861 1085-7861 1086-7861 1087-7861 1088-7861 1089-7861 1090-7861 1091-7861 1092-7861 1093-7861 1094-7861 1095-7861 1096-7861 1097-7861 1098-7861 1099-7861 1100-7861 1101-7861 1102-7861 1103-7861 1104-7861 1105-7861 1106-7861 1107-7861 1108-7861 1109-7861 1110-7861 1111-7861 1112-7861 1113-7861 1114-7861 1115-7861 1116-7861 1117-7861 1118-7861 1119-7861 1120-7861 1121-7861 1122-7861 1123-7861 1124-7861 1125-7861 1126-7861 1127-7861 1128-7861 1129-7861 1130-7861 1131-7861 1132-7861 1133-7861 1134-7861 1135-7861 1136-7861 1137-7861 1138-7861 1139-7861 1140-7861 1141-7861 1142-7861 1143-7861 1144-7861 1145-7861 1146-7861 1147-7861 1148-7861 1149-7861 1150-7861 1151-7861 1152-7861 1153-7861 1154-7861 1155-7861 1156-7861 1157-7861 1158-7861 1159-7861 1160-7861 1161-7861 1162-7861 1163-7861 1164-7861 1165-7861 1166-7861 1167-7861 1168-7861 1169-7861 1170-7861 1171-7861 1172-7861 1173-7861 1174-7861 1175-7861 1176-7861 1177-7861 1178-7861 1179-7861 1180-7861 1181-7861 1182-7861 1183-7861 1184-7861 1185-7861 1186-7861 1187-7861 1188-7861 1189-7861 1190-7861 1191-7861 1192-7861 1193-7861 1194-7861 1195-7861 1196-7861 1197-7861 1198-7861 1199-7861 1200-7861 1201-7861 1202-7861 1203-7861 1204-7861 1205-7861 1206-7861 1207-7861 1208-7861 1209-7861 1210-7861 1211-7861 1212-7861 1213-7861 1214-7861 1215-7861 1216-7861 1217-7861 1218-7861 1219-7861 1220-7861 1221-7861 1222-7861 1223-7861 1224-7861 1225-7861 1226-7861 1227-7861 1228-7861 1229-7861 1230-7861 1231-7861 1232-7861 1233-7861 1234-7861 1235-7861 1236-7861 1237-7861 1238-7861 1239-7861 1240-7861 1241-7861 1242-7861 1243-7861 1244-7861 1245-7861 1246-7861 1247-7861 1248-7861 1249-7861 1250-7861 1251-7861 1252-7861 1253-7861 1254-7861 1255-7861 1256-7861 1257-7861 1258-7861 1259-7861 1260-7861 1261-7861 1262-7861 1263-7861 1264-7861 1265-7861 1266-7861 1267-7861 1268-7861 1269-7861 1270-7861 1271-7861 1272-7861 1273-7861 1274-7861 1275-7861 1276-7861 1277-7861 1278-7861 1279-7861 1280-7861 1281-7861 1282-7861 1283-7861 1284-7861 1285-7861 1286-7861 1287-7861 1288-7861 1289-7861 1290-7861 1291-7861 1292-7861 1293-7861 1294-7861 1295-7861 1296-7861 1297-7861 1298-7861 1299-7861 1300-7861 1301-7861 1302-7861 1303-7861 1304-7861 1305-7861 1306-7861 1307-7861 1308-7861 1309-7861 1310-7861 1311-7861 1312-7861 1313-7861 1314-7861 1315-7861 1316-7861 1317-7861 1318-7861 1319-7861 1320-7861 1321-7861 1322-7861 1323-7861 1324-7861 1325-7861 1326-7861 1327-7861 1328-7861 1329-7861 1330-7861 1331-7861 1332-7861 1333-7861 1334-7861 1335-7861 1336-7861 1337-7861 1338-7861 1339-7861 1340-7861 1341-7861 1342-7861 1343-7861 1344-7861 1345-7861 1346-7861 1347-7861 1348-7861 1349-7861 1350-7861 1351-7861 1352-7861 1353-7861 1354-7861 1355-7861 1356-7861 1357-7861 1358-7861 1359-7861 1360-7861 1361-7861 1362-7861 1363-7861 1364-7861 1365-7861 1366-7861 1367-7861 1368-7861 1369-7861 1370-7861 1371-7861 1372-7861 1373-7861 1374-7861 1375-7861 1376-7861 1377-7861 1378-7861 1379-7861 1380-7861 1381-7861 1382-7861 1383-7861 1384-7861 1385-7861 1386-7861 1387-7861 1388-7861 1389-7861 1390-7861 1391-7861 1392-7861 1393-7861 1394-7861 1395-7861 1396-7861 1397-7861 1398-7861 1399-7861 1400-7861 1401-7861 1402-7861 1403-7861 1404-7861 1405-7861 1406-7861 1407-7861 1408-7861 1409-7861 1410-7861 1411-7861 1412-7861 1413-7861 1414-7861 1415-7861 1416-7861 1417-7861 1418-7861 1419-7861 1420-7861 1421-7861 1422-7861 1423-7861 1424-7861 1425-7861 1426-7861 1427-7861 1428-7861 1429-7861 1430-7861 1431-7861 1432-7861 1433-7861 1434-7861 1435-7861 1436-7861 1437-7861 1438-7861 1439-7861 1440-7861 1441-7861 1442-7861 1443-7861 1444-7861 1445-7861 1446-7861 1447-7861 1448-7861 1449-7861 1450-7861 1451-7861 1452-786

Mowlem

International Construction, Property Development, Mechanical Engineering, Laboratory Instruments and other Technological Services for Construction and Industry.

Key points from Mr Philip Beck's statement to shareholders

- * Turnover up by 28% from £300m to £385m
- * Pre-tax profits rose by 10% from £10.1m to £11.1m
- * Dividends up by 6.5%
- * Mount Pleasant Airport in the Falklands opening on schedule
- * £58m Docklands Light Railway now under construction
- * Buehler continued to make good progress
- * London STOLport planning decision expected shortly
- * Property development made markedly increased contribution

Summary of Results	1984	1983
Turnover	£385.0	£300.0
Profit before tax	11.1	10.1
Profit after tax	7.3	6.5
Earnings per share	28.7p	27.0p
Dividends per share (net)	11.93p	11.2p

Copies of the Annual Report, containing the Chairman's Statement in full, are available from The Secretary, Westgate House, Ealing Road, Brentford, Middlesex TW8 0QZ.

John Mowlem & Company PLC
The abridged results reflect the unaudited accounts filed and to be filed with the Registrar of Companies.

This advertisement complies with the requirements of the Council of The Stock Exchange.

15th May, 1985

Dome Petroleum Limited

(Incorporated in Canada with limited liability)

34,500,000 Common Shares (without nominal or par value)

with

Warrants to Purchase 17,250,000 Common Shares

The following international underwriters have agreed to subscribe or procure subscribers for 5,859,100 Units, each Unit consisting of one Common Share and one half of a Warrant:

Union Bank of Switzerland (Securities) Limited

Nomura International Limited

S. G. Warburg & Co. Ltd.

Bayerische Landesbank Girozentrale

European Banking Company Limited

J. Henry Schroder Wagg & Co. Limited

Société Générale

The offering price of the Units is Cdn.\$3.55 per Unit. Application has been made to the Council of The Stock Exchange for the Common Shares and the Warrants to be admitted to the Official List, subject only to the issue of temporary global certificates in respect thereof.

Listing Particulars relating to Dome Petroleum Limited, the Common Shares and the Warrants are available in the Exel Statistical Service and copies may be obtained during usual business hours up to and including 17th May, 1985 from the Company Announcements Office of The Stock Exchange and up to and including 29th May, 1985 from:

Union Bank of Switzerland (Securities) Limited
The Stock Exchange Building,
London EC2N 1EY

Cazenove & Co.,
12 Tokenhouse Yard,
London EC2R 7AN

This advertisement is issued in compliance with the requirements of the Council of The Stock Exchange

VIEWPLAN

VIEWPLAN plc

(Incorporated in England under the Companies Acts 1948 to 1980 No. 1540316)

Viewplan's principal activities involve the hire in the United Kingdom of broadcast and non-broadcast equipment with or without the provision of technical support staff, to several hundred clients, including major television networks and production companies, for conferences, productions, exhibitions and outside broadcasts.

Placing

Robert Fleming & Co. Limited

of 2,500,000 Ordinary shares of 5p each at 120p per share

Application has been made to the Council of The Stock Exchange for the grant of permission to deal in the whole of the issued ordinary share capital of the Company in the United Securities Market. A proportion of the shares being placed is being made available to the public through the market during market hours today. It is emphasised that no application has been made for these securities to be admitted to listing.

Particulars relating to the Company are available in the Exel Statistical Service and copies of the Prospectus may be obtained during usual business hours on any weekday (Saturdays and public holidays excepted) up to and including 29th May, 1985, from:

Robert Fleming & Co. Limited
8 Crosby Square, London EC3A 6AN.
14th May, 1985

W. Greenwell & Co.
Bow Bell House, Broad Street, London EC4M 9EL

UK COMPANY NEWS

Change in policy to follow Scottish trust's link-up

BY ALEXANDER NICOLL

THE LAST investment trust to be managed from a solicitor's office is to join a larger management group in a move which highlights the continuing shake-up in the investment trust sector.

Scottish Northern Investment Trust, which has total assets of £178m, has been managed since its foundation in 1908 by Paul & Williams, an Aberdeen firm of solicitors. Yesterday the trust announced plans for its investment managers to join Stancast Assets, a fast-growing Edinburgh concern run by Mr Willie Forsyth.

Shareholders will be asked to approve a management switch to Stancast Assets and a change in investment policy in order to emphasise capital instead of income growth and to increase substantially the trust's exposure to foreign stock markets, especially outside the U.S.

The trust plans an issue of warrants on the basis of one for every five ordinary shares. Each warrant would entitle the holder to buy one ordinary share.

Once the proposals are approved, Scottish Northern plans to attract more U.S. investors, following recent signs of growing interest from across the Atlantic to UK investment trusts. It may consider a U.S. office or a link with a U.S. investment management concern.

Mr Fred Dalgaro, investment manager of Scottish Northern, said the management switch has been forced by a need to expand the management team "to take account of the changing needs of specialist investment management."

It was difficult, he said, to attract investment managers both to a legal partnership and to Aberdeen. Scottish Northern, having decided that the best way forward was to seek partners, held discussions with several potential managers before deciding on Stancast Assets. The trust's advisers are stockbrokers Laing & Cruickshank.

Mr Dalgaro and Mr Ian Massie, assistant investment manager, are leaving Paul & Williams to join Stancast Assets, which currently has a

team of three fund managers. Mr Joe Yeoman will remain chairman of Scottish Northern, and will retire from Paul & Williams, which will remain as secretary and legal adviser to the trust.

The move will also mark a substantial expansion for Stancast Assets, of which funds under management now total some £80m, including Edinburgh Financial Trust and Shires Investment. The group has been built up by Mr Forsyth and Mr Ian Smith since the former's departure from Edinburgh Investment Trust in 1982.

The new investment policy is intended to appeal to institutional and U.S. investors. The trust will aim to invest up to 75 per cent of the quoted section of the portfolio—which accounts for 87 per cent of the total—in non-UK markets, especially in the Far East, while at least maintaining the current dividend.

Scottish Northern's shares responded to the news with a 2p fall to 129p, about 24 per cent below net asset value.

Stylo ahead of forecast with profits at £2.4m

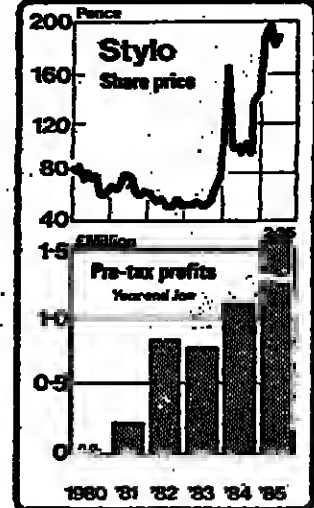
Stylo, which in February fought off a partial takeover bid from British Land, has announced more than doubled pre-tax profits for the 53 weeks to February 2 1985, of £2.35m against £1.1m previously.

This is a slightly better result than the £2.25m forecast by Mr Arnold Ziff, the chairman, in his January letter to shareholders recommending a rejection of the British Land tender.

For the first half, as is usual for this footwear retailer and wholesaler, losses of £549,000 were incurred. At that stage these had been trimmed from the previous £583,000.

The single final dividend is effectively increased to 4.5p net compared with an adjusted 2.25p. Shareholders' earnings per 35p limited voting share are shown higher at 8.86p (4.29p).

On turnover ahead by £9.94m at £58.75m, a trading profit of



£3.31m (£1.91m) was generated. The pre-tax result was struck after interest payments of £1.25m (£817,000), but included other income of £318,000 (nil). Tax took more at £514,000 against £240,000 and there was an extraordinary debit of £100,000 (nil).

The directors consider Stylo to be a close company for tax purposes following the purchase by the Ziff family and associates in February of a further block of limited voting shares. The Ziff family also hold management shares accounting for 44 per cent of votes.

comment

Had the market paid no attention to Stylo's encouraging leap in profits it would not have been surprising that shareholders are understandably more concerned about whether British Land, whose bid failed earlier this year, continues to buy shares in the market to increase its 25 per cent stake. But to send the shares down 3p to 190p was a curious way to react to the first piece of concrete evidence that Mr Arnold Ziff is at last set on improving the company's shabby profit record. Most of the advance in 1984 came from the retail group, and margins improved in response to recent upgrading of stores and product ranges. The bulk of the benefits have still to be felt, and in the current year, another £2m will be spent on refurbishment, while a further boost should come through from the successful introduction last year of the Electronic Point of Sale system. Even if profits rise to £3.2m this year, a 1/4 of over 16 on a 30 per cent tax charge, is over-optimistic on earnings grounds alone. Of course with British Land still lurking in the wings, earnings aren't the only consideration. Ziff maintains that any bid below asset value (232p per share at year end) will not succeed.

BOARD MEETINGS

TODAY
Intertec-Supergrip Brick, Bush Radio, General, Bredford, Investment Trust, Grand Metropolitan, NBS Newsagents, Stockholders Investment Trust.
FRIDAY
Finsler-Dupont, Harwell, London Northern, London, Associated Oil Investments, Smith, St. Aubyn, Tern Group, Whitbread Investments, Wigan Investment.

Keep controls 32% of Adams and extends offer

BY LIONEL BARBER

Keep Trust yesterday announced that it held almost 32 per cent of ordinary shares in Adams & Gibbons, the Newcastle-upon-Tyne-based Vauxhall Opel main dealer and was extending its £4.4m cash offer.

Keep said it had received acceptances from shareholders representing almost 20 per cent of the equity, including the 14.39 per cent stake held by Grovebell, the motor distributors.

These acceptances, added to Keep's 11.89 per cent holding in Adams, mean that Keep now controls 31.71 per cent of the company. Yesterday was the first closing date for Keep's offer.

Keep, a holding company with interests in motor trading, engineering and investments, is

offering 340p per share to Adams. Last night Adams shares closed unchanged at 260p, while Keep shares also were unchanged on the day at 171p.

Keep's advisers, Charterhouse Japhet, said that Keep had not purchased any ordinary or preference shares in Adams during the offer period which has now been extended to Tuesday, May 20.

Last week, Adams & Gibbons said the Keep bid was much less than a revised net asset valuation of 353p per share, carried out by Storey, Stone & Parker, the chartered surveyors.

Last month, Keep produced a 49 per cent rise in pre-tax profits from £1.15m to £1.71m, on turnover of £56.5m.

Muirhead drops fight against RHP bid

BY MARTIN DICKSON

SHARES IN Muirhead, the manufacturer of facsimile transmission systems and electrical components, yesterday fell 32p on the day, closing at 162p, following the company's announcement that it was abandoning its fight against a £15m takeover bid from RHP Group and was recommending the offer to shareholders.

In a statement, issued after the market closed on Monday night, Muirhead said that a review of its trading position had revealed continuing delays in the placement of UK and overseas defence contracts. It had also led to increasing concern about the company's prospects for the

present financial year. Mr David Ewart, chairman of RHP, said yesterday that he was "delighted Muirhead have come across." He thought the company could "do well with RHP" and his managing style and profits should quickly be restored.

Muirhead's initial response to the bid had been to reject it as "not adequate." RHP is offering eight of its shares for every five of Muirhead's. On the basis of RHP's closing price last night of 108p, down 1p, that values Muirhead at 164.8p. There is a 164.8p cash alternative.

COMPANY NEWS IN BRIEF

Anglo Nordic Holdings has disposed of its Braby Economic Appliances business and has purchased H.M.L. (Engineering). Braby has been sold at a value of £707,300 to a private purchaser, Mr G. F. Taylor. H.M.L. has been acquired for a total of £191,000.

Anglo Nordic will now be one of the largest manufacturers of aircraft ground support equipment in the world.

Nat losses of H.M.L. (after deducting all charges except about £1m) attributable to the business acquired for the year to October 31 1984, were £176,000. Turnover was £5.8m.

Anglo Nordic acquired the share capital of H.M.L. for £191,000, as compared with the net tangible assets of £191,000 at February 29 1985 of £229,000.

To simplify Cluff Oil's capital structure, a reorganisation is proposed whereby all ordinary and holders will exchange their shares for those in a new holding company Cluff Oil Holdings. For every existing ordinary share and B share in Cluff holders will receive one new ordinary share in Holdings.

In exchange for every warrant to subscribe for one ordinary share in Cluff holders will receive one warrant entitling the holder upon subscription to one new share in the new company.

Caparo Properties has returned to the dividend lists with a final of 0.5p for 1984. Pre-tax profits were £188,000 (£157,000), but tax of £65,000 (£10,000) and reorganisation costs of £31,000 (£106,000) leave attributable profit of £92,000 (£41,000).

Results are in line with the board's expectations. Profits from the present development programme are expected this year, which is said to look promising.

Pre-tax profits at Frederick Cooper, Wetherhampton's basic steel processor, were £2,000

lower at £225,000 in the half-year to January 31, 1985, on group turnover up from £9.53m to £10.68m.

The interim dividend is raised from 0.53p to 0.55p. Stated earnings per 10p share were lower at 2.65p against 2.69p.

Acceptances of Trafalgar House's £37m offer for Haden have been received for 19,045 ordinary shares, or 0.12 per cent, and the offer has been extended until May 22. Trafalgar is considering its response to a rival £35m management buyout plan for Haden.

The Government has given the go-ahead for Britain's biggest ever retail merger between Associated Dairies, the Asda supermarket group, and furniture company MFI. Trade Secretary Mr Norman Tebbit has decided the £260m bid for MFI does not have to be cleared by the Monopolies Commission.

By 3 pm on May 14, the recommended offer had been accepted by holders of 140,888 MFI ordinary shares (71.25 per cent). Associated Dairies now owns or has received acceptances for a total of 16,644 MFI ordinary (81.26 per cent). The offer has been declared unconditional.

Secombe, Marshall and Campion, the discount house, made profit after tax of £170,155 (£488,973) in the year to end-April 1985, during which it was taken over by Citicorp International. Follow-up takeover expenses of £80,000 and an interim dividend payment totalling £96,000, retained profits at the year-end were £579,613, £82,000 (£41,000).

The interest rate for this week's issue of local authority bonds is 13 1/4 per cent, unchanged from last week and compares with 10 1/4 per cent a year ago. The bonds are issued at par and are redeemable on May 21, 1986. A full list of issues will be published in tomorrow's edition.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corr. div. year	Total last year
Caparo Props	0.5	July 5	Nil	0.5
Land Securities	5.55	July 5	0.53	7.27
Frederick Cooper	0.55	July 5	0.5	1.05
Enray	0.8	Oct 31	0.5	1.3
Fulcrum Invest	2.2	Oct 31	2.2	4.4
Sears Rids	2.2	Oct 31	1.8	4.0
Secombe Marshall	Nil	Oct 31	1.4	1.4
Spears & Jackson	4.5	Oct 31	3.5	8.0
Stylo	4.5	Oct 31	2.25	6.75

Dividends shown pence per share net except where otherwise stated. * Equivalent after allowing for scrip issue. † On capital increased by rights and/or acquisition issues. ‡ US\$ stock. § Unquoted stock.

GA first quarter underwriting losses increase to £85m

THE IMPACT of severe winter weather worldwide resulted in the General Accident Group, one of Britain's largest motor insurers, recording a pre-tax loss of £18m in the first quarter after recording underwriting losses of £84.6m.

In the first quarter of 1984, GA recorded a pre-tax loss of £16.5m after underwriting losses of £80.3m.

Investment income rose by 3.3 per cent in sterling terms from £82.8m to £85.4m, with an underlying growth of 7.9 per cent excluding currency fluctuations. Indeed, currency changes had the effect of increasing both underwriting losses and investment income by £4m, leaving the pre-tax loss unchanged.

A tax credit of £9.4m against a credit of £7.6m last year resulted in a net loss to shareholders of £9.3m compared with a loss of £9m for the first quarter last year.

Net premiums on general insurance business rose by 6.4 per cent from £411.8m to £438.4m, with an underlying increase after allowing for currency fluctuations of 11.5 per cent.

Net asset value rose from £28p per share at the end of 1984 to 84p at the end of the first quarter, with the solvency margin declining slightly from 82.4 per cent to 81.9 per cent.

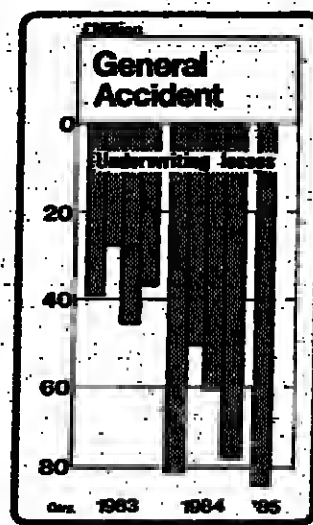
The impact of bad weather then set in, with the period was somewhat less than the impact at the beginning of 1984—a reversal situation for the experience in the U.S., Canada and the rest of the world where weather losses are even higher this year.

Nevertheless, underwriting losses in the UK were marginally lower at £20.2m against £21.1m in the first quarter last year on the premium income up from £125.5m to £132.6m. Losses on the home-owners account dropped from £12.6m to £10.3m and on commercial property from £12.8m to £10.4m—the latter account benefiting from a substantial premium increase but hit by an unusually high number of large fire claims.

It was the substantial motor account that caused problems in the UK in the first quarter with the upsurge in claim numbers seen at the end of 1984 continuing into 1985. Underwriting losses rose from £19m to £27.7m.

In the U.S., written premiums rose from US\$213.5m to US\$246.3m—the increase coming solely from premium rises. The operating ratio for the quarter was 119.75 compared with 119.53 for the first quarter last year.

Elsewhere, there were aggregate underwriting losses of £16.2m compared with £13.8m, with some improvement in the EEC countries being swallowed up by sharply increased losses in Canada, Australia and New Zealand.



MINING NEWS

Amcoal's recovery gathers strength

BY KENNETH MARSTON, MINING EDITOR

THE RECOVERY in earnings of the Anglo American Corporation group's Anglo American Coal Corporation (Amcoal) gathered strength in the second half of the year to March 31. Net profits of the major South African coal producer advanced by 42 per cent to £165.2m (£123.4m) against £109.2m (£86.8m) in the first half. The latest earnings equal 64 cents per share. Amcoal is raising its final dividend to 32.5 cents (53.5p), making a total for the year of 195 cents, against 145 cents. At last night's price of £17, cum-dividend, this puts the shares on a 5.6 per cent yield basis.

comment

Amcoal's strong performance, which followed a dull patch,

reflects higher export sales: profits from the new collieries which serve the South African market, and a significant increase in interest received. The major factor will have been the boost to income of the weak South African rand against the U.S. dollar, which coal sales are priced in. The company did not benefit to the full in the first half, but there may have been some catching up during the following six months. Guidance as to this year's prospects will be awaited from the chairman in the annual report due next month. In the meantime, Amcoal's earnings seem set for a further increase, although not as much as in the past year which followed a dull patch.

Sudan gold mine confirmed as a commercial viability

AN INDEPENDENT report by geological and mining consultants Mackay and Schnellmann has confirmed the commercial viability of the Gebel gold mine in the Red Sea Hills area of Sudan.

Owned as to 49 per cent by Greawick Resources and 51 per cent by the Sudanese Government, it is in a mining area with a history dating back to the pharaohs.

Geological reserves at the higher grade Wadi A' and Wadi Gebel have been assessed at 175,000 tonnes of ore with an expected gold recovery grade of a high 28 grammes per tonne. The mine also has other, lower grade, reserves and likely extensions to the main lodes.

Geologists estimate that operating costs will equal 4.7g

gold per tonne on the basis of a bullion price of \$302 per ounce, thus leaving 23.3g to represent gross operating profits.

At present Gebel is mining at an annual rate of 9,000 tonnes of ore, but this is to be raised to 50,000 tonnes during 1986.

The agreement with the Sudanese Government provides for Greawick to recover all costs incurred—about \$3.75m—in bringing the mine to production before any allocation of profits is made. They will be free of Sudanese tax for five years.

LADBROKE INDEX

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Based on FT Index
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of 500,000 Ordinary shares of 10p each at 300p per share

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in Ordinary Shares of 10p each

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Holmes & Marchant Group PLC is the holding company of a marketing consultancy group offering a comprehensive range of services in sales promotion and graphic design.

Application has been made to the Council of The Stock Exchange for the grant of permission to deal in the Ordinary shares of Holmes & Marchant Group PLC in the United Securities Market. It is emphasised that no application has been made for these securities to be admitted to listing.

A proportion of the shares being placed has been offered to, and is available through, the market at the date of this advertisement. It is anticipated that dealings will commence on Tuesday, 21st May, 1985. Particulars relating to the Group are available in the Exel Statistical Services and copies of the Placing Memorandum may be obtained during normal business hours on any weekday (Saturdays excepted) up to and including 3rd June, 1985 from:

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21 Moyle Street,
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Cazenove & Co.,
12 Tokenhouse Yard,
London, EC2R 7AN

15th May, 1985

UK COMPANY NEWS

Markheath
1-for-1
rights to
raise £7m

By Stefan Wagstyl

Markheath Securities, the North London property company headed by Mr Paul Bobroff, chairman of the company which owns Tottenham Hotspur Football Club, yesterday announced a heavy loss for 1984 and a one-for-one rights issue.

The company suffered a £2.4m pre-tax loss, including a £1.6m exceptional loss on a major office development in Stratford, East London. In 1983, pre-tax profits were £2.1m.

The rights issue, underwritten by merchant bank Robert Fleming, is expected to raise £7m which will be used to cut group borrowings of £11.3m and fund the company's plans to set up a portfolio of investment properties.

The new shares are offered at 50p each, against a stock market price for existing shares of 58p, down 12p yesterday.

Mr Bobroff said that while the losses over the Stratford development had increased the amount of money the company was raising from shareholders, a rights issue would have been launched in any case to finance the planned investment portfolio. Hitherto, the company has been a property developer, and has not held investment properties of its own.

The Stratford losses occurred because the company has been unable to let a building completed in early 1984. It has now sold the freehold to an institutional investor, but taken back a 25 year lease on the property. It is still looking for tenants but believes that satisfactory letting arrangements can be reached and that no further provision will be needed.

Mr Bobroff said that by going into East London, the North London-based company had gone beyond its traditional area and made a mistake.

The company is paying a 5.2p final dividend for 1984, making an unchanged total payout of 9.7p.

Markheath is forecasting profits of not less than £1.4m pre-tax for the 15 months to the end of March 1985, including £300,000 from rental income. It intends to pay a dividend of 2.88p on the enlarged share capital.

Markheath plans developments worth a total of £24m over the next two years.

Mr Bobroff and his board are taking up their rights issue entitlement only in part so that their stake in the company, which was floated on the USM in 1981 and was listed in 1983, will fall from about 50 per cent to under 40 per cent.

Spear & Jackson recovery setback

A DOWNTURN in the second half of 1984 has limited the extent of Spear & Jackson's recovery from the depressed results of the early 80s, despite an increase of nearly 12 per cent in the year-on-year taxable result.

Profits fell from £334,000 to £228,000 in the second term, leaving the group—a Sheffield-based manufacturer of saws and hand, garden and engineering tools—with £1.36m for the full year against £1.22m. Mr Stephen de Bartolome, the chairman, says that the outcome reflects the additional costs arising from new products introductions, the adverse effects of the miners' strike, and a distinct slackening in activity at the North American subsidiary in the second half.

He adds, however, that the current year has started strongly, except in North America where the lumber industry is still depressed, and he regards prospects as "encouraging".

The final dividend is to be raised from 3.5p to 4p for a total of 6p for the year (5.25p). Earnings per share are stated at 15.1p against 13.9p.

Turnover rose by £4.77m to £36.34m, producing operating profits of £1.70m against £1.66m. The chairman believes that the foundations have been laid for the group to show further advances in profitability in years to come.

An extraordinary item took £188,000 (nil), representing the reorganisation and closure costs associated with the discontinua-

tion of unprofitable activities. After this and tax at £488,000 (£418,000) attributable profits fell from £743,000 to £534,000.

Commenting on the years' trading performance, the chairman said that in Spear & Jackson (Tools), much of the preparatory work has taken place within the company. This reduced the 1984 profits, which were already adversely affected by the exceptionally dry weather during the spring gardening season.

The board believes that this will prove to be only a temporary setback and that the tools company is now poised for profitable growth.

In the first half of the year a national TV advertising campaign was launched to establish domestic fertiliser products, and in particular lawn repair, as an effective force.

Costs were high, and represent an investment in the future, says the chairman.

The company plans to add further new products to the range and maintain the momentum with continued advertising.

In the second half of the year a new marketing strategy for garden tools was implemented. The chairman says that this strategy appears to have been successful, but has also had the effect of reducing despatches in the last quarter of 1984 and moving the increased volume into the first quarter of 1985.

Taking the two quarters together reveals substantial sales volume increases achieved over the period as a whole. This has adversely affected 1984 profits



Stephen de Bartolome

but is expected that the shortfall will be more than made good in 1985.

One of the main developments in 1984 was the acquisition of the saw division of Firrh Brown Tools. Mr de Bartolome says that cost savings and the increased volume of the business should significantly enhance profitability in the current year.

The company intends to change its year end from December to March in order to reduce distortion in group profits from a financial year ending in the middle of the main selling season for garden tools. The current year will run for 15 months to March 1985.

• comment

By coming in almost £250,000 below forecast Spear & Jackson appears to have lost a year in performance terms. Analysts' forecasts of £2m pre-tax for the 15 months to the end of March 1985 year-end only tend to confirm this. Although the £490,000 launch costs of the group's lawn care fertiliser range could be added back in by the generous, the return on this outlay looks uncertain with the company only forecasting breakeven for the current period. In North America the firm contribution of 1984 will certainly not be repeated this year as major lumber company customers are embroiled in bitter industrial disputes. In addition the revival of U.S. house building starts has not led to any sustained growth in sales. In the first quarter order book is well down overall in North America. A higher UK contribution to pre-tax profits which of central costs this year £242,000 last year will see a sharp drop in the tax rate—at home almost no tax at all will be paid as some of the over £1m in unclaimed allowances are called up. This should see earnings per share growing more quickly than profits and could herald further increases in the dividend. For 1984 the payout rise has taken the group's yield up to 5.1 per cent, a good average for the sector. On an annualised basis the forecasts for 1985 suggest pre-tax profits of £1.75m and a pre-tax multiple of 3.6 (20 per cent tax charge) on 140p. No significant rating can be expected until words become deeds.

Kennedy
Brookes
in £9.7m
cash call

THE board of Kennedy Brookes proposes to raise approximately £9.65m net by way of an underwritten rights issue of up to £10m 68 per cent convertible secured loan stock 2002 on the basis of £7.826 nominal of stock for every 10 ordinary shares.

The stock when fully converted would result in the issue of up to a further 3,278,680 ordinary shares of the company.

The final redemption date of the stock will be December 31 2002. Kennedy Brookes believes in expanding its hotel interest, and will thus extend Ghyll Manor and is looking to acquire further hotels as and when the opportunity arises.

To date, the board also recognises the importance of frequent refurbishment and modernisation programmes for the company's restaurants and catering operations.

A recent development in the group's activities is the grant of franchises whereby selected third parties are licensed to operate restaurant premises acquired or refurbished by the group, under one of its established trade names.

The issue will provide the company with the means of pursuing its policies as well as with the ability to take advantage of future investment opportunities.

In the short-term, the net proceeds of the issue, estimated at £9.65m, will be applied in reducing the group's borrowings.

USM NEWCOMERS

Holmes & Marchant
valued at £12m

By Lucy Kellaway

Marketing consultants Holmes & Marchant is joining the USM in a placing of 500,000 shares at 300p arranged by Lazard Brothers. Of the increased equity 12.5 per cent is being placed to raise £1.3m to cover expenses, and which represents new capital for the company. At the placing price Holmes & Marchant is valued at £12m.

The company specialises in "below the line" marketing, which encompasses everything but media advertising, and accounted for about half of the £700 profit in the UK on market in last year. Holmes & Marchant offers a range of services in graphic design and sales promotion to clients mainly in the food and consumer goods industries.

It hopes to broaden this base to take in a wider range of customers, and in February 1985 it placed £1.3m in the USM subsidiary was set up to tap the growing market in the design of financial accounts.

In the last two years its 10 largest clients accounted for about half of gross profits; in 1985 it is estimated that no one customer will represent more than 15 per cent.

Holmes & Marchant was incorporated in 1971, and in the year ended September 1984, it made pre-tax profits of £874,000 on sales of £2.6m, after five years of steadily increasing turnover, and four of rising profit.

In the current year the company is forecasting a 38 per cent increase in profits to £940,000, which implies a price earnings multiple of 21 at the placing price (on an estimated 44 per cent tax charge). The forecast yield is 1.7 per cent assuming an annual net dividend of 3.5p a share.

The placing, which represents 23.3 per cent of the enlarged equity, will raise £1.5m new capital for the company, with the remainder being raised by being sold by existing shareholders. At the placing price, the company is capitalised at £12.5m.

Viewplan hires broadcast and non-broadcast equipment in the UK either with or without technical support staff for use in conferences, exhibitions and other events. It sells to over 200 customers spanning a range of industries, and including the BBC, Virgin Films, Ford and Holiday Inns. No single customer accounts for more than 6 per cent of turnover.

Recently the company set up a training centre in Leeds University to teach video production techniques, and plans shortly to start courses for broadcast engineers.

In February, Viewplan acquired Designing Systems, a specialist software company, whose expertise it will eventually use to develop control systems for its own equipment.

The company was established in 1981, since when it has increased profits from around £25,000 pre-tax to £433,000 in the year to March 1984 on sales of £1.4m. For the year just ended, the company estimates it made profits before tax of £200,000. There is no forecast for the current year.

The new capital will be employed to expand the company's existing non-broadcast operations, to open new hire branches in the UK, and to increase the range of equipment available for hire.

At the placing prices, the shares are valued at 21.8 times estimated 1985 earnings, assuming a 38 per cent tax charge. A net dividend of 1.26p for the year to March 1985 is forecast which gives the shares a yield of 1.3 per cent. Dealings are expected to begin on May 30.

'DTI probe hits Emray growth'

BY NIGEL CLARK

EXPANSION PLANS for Emray, the financial services and vehicle distribution group, are being held up by the continuing Department of Trade and Industry investigation into the company's shareholders' register, chairman, Mr Lionel Altman, said yesterday.

He said that the inquiry had depressed the share price and limited the company's options when considering new acquisitions. Attempts to discover from the DTI when the report will be made had met with no success, he said. The group's 5p shares closed unchanged last night at 77p.

Inspectors were appointed under Section 173 of the Companies Act last year following the sale by Taddale, the property investment group, of its 27.5 per cent stake in Emray.

Mr Altman says in the announcement of results for 1984: "During the course of last year, your board became aware

of certain peculiarities relating to the shareholders' register, which led to doubts as to the beneficial ownership of a significant proportion of the equity."

He added that a number of acquisitions have been assessed but frustrated by the depressed share price.

Mr Altman emphasised that the companies considered are in the group's existing areas of business. That is despite comments made following the annual meeting in July last year.

Mr Murdoch Morrison, one of three new directors elected at the meeting, then said that he would be asking the board to consider buying two companies in the fields of electronics/reprographics and telecommunications.

Despite the problems Emray has reported a record year. Profits for the 1984 year are £301,885, a rise of almost 60 per cent from the previous year's £202,617. This was achieved on

turnover up from £16.52m to £21.74m.

Major advances were made in both the company's main areas. The motor division had a record year, and financial services contributed more than half the company's profits for the first time.

A final dividend of 0.6p is being paid, making a total of 0.9p (0.75p). Earnings per share are 2.13p (1.62p).

The chairman says that the success of financial services justifies the decision to develop a comprehensive financial division. Operating profits during the year rose to £683,000, an increase of 124 per cent on the previous year. That compares with £26,000 in the early days of the division five years ago.

While expressing caution, Mr Altman says that he would be disappointed if results for the present year did not exceed 1984's record.

RMC

*'We face the future
with confidence and resilience'*

JOHN CAMDEN CHAIRMAN

HIGHLIGHTS OF THE YEAR

Turnover	£1174.9 million up 12%
Pre-tax profit	£81.3 million up 14%
Earnings per share	45.1p up 14%

1984 was a year of mixed fortune. The improvement in trading conditions which started in 1983 and continued into the early months of 1984 was not sustained during the second half of the year. Trading in the United Kingdom and West Germany became more difficult as the year progressed. However, another strong performance from our Concrete and Aggregates Sector in the United Kingdom and a contribution of increasing importance from our operations in the United States ensured that Group profit before taxation increased by 14%.

In a year in which success was nowhere easy, we were especially dependent on the abilities and commitment of our employees. It is a pleasure to draw attention to the substantial achievements during

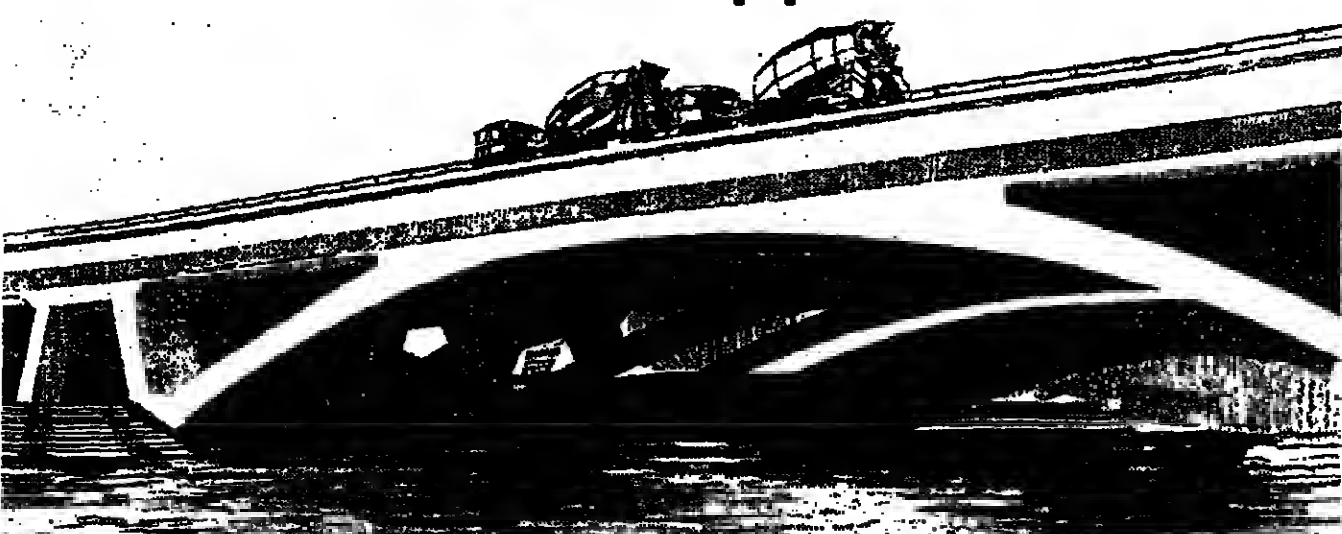
the year of the people who work for the RMC Group throughout the world.

Looking ahead, 1985 seems likely to be a tough year for us. Throughout the world the outlook for the construction industry is uncertain, while in the United Kingdom and Europe atrocious weather conditions have meant a difficult start to the year. Nevertheless I am confident that the strength of our team at RMC, and the sound base which we have created, coupled with our strong cash flow, enables us to face the future with confidence and resilience.

The Annual General Meeting will be held at the Hyatt Carlton Tower Hotel, Cadogan Place, London SW1 on 7th June 1985 at 11.30 a.m. If you would like a copy of the 1984 Annual Report please write to The Secretary, RMC Group p.l.c., RMC House, High Street, Feltham, Middlesex TW13 4HA.

THE RMC GROUP OPERATES INTERNATIONALLY IN AUSTRIA, BELGIUM, FRANCE, HOLLAND, HONG KONG, ISRAEL, REPUBLIC OF IRELAND, SPAIN, TRINIDAD, UNITED KINGDOM, USA AND WEST GERMANY.

RMC Group p.l.c.

General
Accident

THREE-MONTHS' RESULTS

The results for the three months ended 31st March 1985, estimated and subject to audit, are compared below with those for the similar period in 1984, which are restated at 31st December 1984 rates of exchange; also shown are the actual results for the full year 1984.

It must be emphasised that the results for an interim period do not usually provide a reliable indication of those for the full year.

	3 Months to 31.3.85 Estimated £ millions	3 Months to 31.3.84 Actual £ millions	1984 Year Actual £ millions
Net written premiums—General Business	438.4	411.8	1,689.0
Investment Income	64.9	62.8	286.2
Underwriting Result—General Business	(94.6)	(80.3)	(268.3)
Long Term Insurance Profits	2.2	1.4	7.7
Loan Interest	(17.5)	(16.1)	5.6
	0.5	0.4	1.7
Profit (Loss) before Tax and Minority	(18.0)	(16.5)	3.9
Interests	(8.4)	(7.8)	(8.1)
Taxation	0.7	0.5	2.2
Minority Interests and Preference Dividend			
Net Profit (Loss) attributable to Shareholders	(9.3)	(9.0)	6.8
Principal exchange rates used in translating overseas results			
U.S.A.	\$1.24	\$1.16	\$1.16
Canada	\$1.69	\$1.53	\$1.53

Net written premiums and investment income increased in sterling terms by 6.4% and 3.3% respectively. Adjusted to exclude the effects of currency fluctuation, the increases were 11.5% and 7.9% respectively.

The first quarter result has again been seriously affected by severe weather losses principally in the United Kingdom but also in the U.S.A., Canada, Australia and New Zealand.

In the United Kingdom, net written premiums were £132.6m (1984, £125.5m) and there was an underwriting loss of £30.9m (1984, £31.1m). This marginal improvement was achieved despite a substantial deterioration in the Motor account result. The upsurge in claim frequency in the second half of last year continued into the first quarter producing a loss of £7.7m (1984, £1.9m loss). The impact of bad weather was taken mainly in the Homeowners and Commercial Property accounts giving rise to losses of £10.3m (1984, £12.6m loss) and £10.4m (1984, £12.8m loss) respectively. These accounts received some benefit from rate increases but the Commercial Property account suffered from an unusually high number of large fire claims. Experience in the Liability classes showed a substantial improvement but remains adverse.

In the United States, net written premiums were \$240.3m (1984, \$213.6m) and the operating ratio was 119.75% as compared with 119.53% for the same period last year. On the United Kingdom accounting basis, the underwriting loss was £37.5m (1984, £35.8m loss). Some further deterioration in personal lines experience was largely offset by an improved result from the commercial accounts which are beginning to benefit from rate increases.

Elsewhere there were aggregate underwriting losses of £16.2m (1984, £13.4m loss). There was some improvement in experience in the E.E.C. territories but the incidence of weather claims led to sharply increased underwriting losses in Canada, Australia and New Zealand.

Single premiums for Life business in the United Kingdom, following the successful launch of our unit-linked products, were sharply up at £31.0m (1984 £14.4m). New Annual premiums were lower at £5.9m (1984 £9.0m), the 1984 figure having been affected by the pre-budget increase in business.

General Accident Fire & Life Assurance Corporation plc

World Headquarters: Pitheavlis, Perth, Scotland PH2 0NH.

FT COMMERCIAL LAW REPORTS

Stay of judgment contradicts terms of swimming pool sub-contract

TUBEWORKERS LTD v TILBURY CONSTRUCTION LTD

Court of Appeal (Lord Justice Kerr, Lord Justice Dillon and Lord Justice Parker): April 2 1985

WHERE A person obtains judgment for money already payable to him under a building sub-contract, the court will not set aside the contract terms by staying execution in the absence of special circumstances. Whether such circumstances are "special" depends on the construction of the particular contract, and if the sub-contract anticipates and provides machinery for enforcement of the contract, the fact that the other party is counter-claiming by arbitration is not a special circumstance justifying a stay.

The Court of Appeal held when allowing an appeal by plaintiff sub-contractors, Tube-workers Ltd, from a decision of Sir William Stubb, QC, the senior Official Referee, of a stay of execution of judgment obtained by them against the defendant main contractors, Tilbury Construction Ltd. The relevant sub-contract was made under the Federation of Associations of Specialists and Subcontractors (FASS) form, as amended in 1976.

Clause 11(a) of the FASS form as amended provides: "The contractor shall make application to the architect for certificates of payment for the value of the sub-contract works."

Within 14 days of the receipt of any certificate, the contractor shall pay to the sub-contractor the total value certified.

Clause 13 A(2): "The contractor shall be entitled to set off the amount of any claim incurred by the contractor by reason of any breach of the sub-contract, provided: (a) that no set-off relating to delay shall be made unless the certificate of the architect referred to in clause 8(a) has been issued; (b) that the contractor has given to the sub-contractor notice specifying his intention to set off."

Clause 13B (1)(c): "If the sub-contractor does not agree the amount specified in that notice the sub-contractor may

(1) give notice of arbitration... (2) request action by an arbitrator."

Clause 8 (c) deals with delays on the part of the sub-contractor and possible extension of time to the main contractor.

LORD JUSTICE KERR said that the main contract was for the construction of a swimming pool at Grundy Park. The sub-contract was for the supply and erection of structural steel work.

A dispute arose because the sub-contractors alleged that the main contractors were delaying commencement of the works. The main contractors thereupon applied to the architect for a certificate under clause 8(a) of the sub-contract, dealing with the allegation of delay and asking for an extension of time.

This architect purported to issue a certificate on July 14, 1983, but the main contractor took the view that it was bad. On September 13, before another clause 8(a) certificate had been issued, the architect issued a certificate of payment under clause 11(a). It certified that £54,728 was payable to the sub-contractors by the main contractors.

Under clause 11(b) that sum became contractually payable 14 days later, on October 4.

The architect finally issued a clause 8 (a) certificate in the proper form on November 9. On November 16, on the basis of that certificate, the main contractors put forward a £97,000 counter-claim against the sub-contractors.

On November 21 the sub-contractors issued their writ claiming £54,728 less a 3 per cent retention, and applied for summary judgment under Order 14 of the Rules of the Supreme Court.

Sir William Stubb gave judgment in their favour. He took the view, however, that if he were satisfied that the main contractor had a good and arguable counter-claim he ought to order a stay of execution.

He ordered a stay pending prosecution of the counter-claim. It was argued that the counter-claim would have to go to arbitration. Under RSC Order

14 rule 12(2) the court might stay execution "until after the trial of any counter-claim." Since there was no going to be any trial, that could not apply.

Under RSC Order 47 rule 1 (a), if the court were satisfied "that there are special circumstances which render it inexpedient to enforce the judgment or order" it might stay execution.

On its face, that provision gave an unfettered jurisdiction to the court to order a stay if, in its view, there were "special circumstances" which made it "inexpedient not to do so."

The authorities provided no assistance. The issue was to be determined by reference to the particular provisions of the sub-contract. The essential feature was that the sub-contractors were not only entitled to summary judgment under Order 14 but, above all, on October 4 they became entitled to immediate payment of the sum certified under clause 11 (b).

That did not deprive the court of all jurisdiction to conclude that there might nevertheless be "special circumstances" which would justify a stay. There might be special circumstances if, for instance, due to some fault or improper conduct on the part of the sub-contractors, the main contractors were unable to invoke and rely on the machinery of clause 13 A. But nothing of the kind was alleged here.

Without any special circumstances the stay had the effect of setting aside the terms of clause 11 (b). The judge had put the sub-contractors in a worse position than they might have been in had the main contractors been able to invoke the machinery of clause 13 A.

In that event the immediate decision as to what was to happen pending arbitration would have gone to an adjudicator under 13 B, and he might have ordered that all or part of the money was to be paid to the sub-contractors. Under the judge's order payment would have to wait events in the arbitration.

What the judge had done, in effect, was to replace the contractual machinery with the provisions of the court.

Generally speaking, the relevant terms of a contract between the parties must be paramount and take precedence over the court's discretion under Order 47. In Northern Regional Health Authority v Crouch (1984) 1 QB 644, 664 Lord Justice Dunn said: "It is not for the court to interfere and replace its own process for the contractual machinery agreed by the parties."

At the judge took into consideration in the present case was that the main contractors had a good or arguable counter-claim.

That was incapable of constituting special circumstances in relation to the present form of contract because the very basis of clause 13A was that a counter-claim or set-off was raised against the sub-contractor.

Mr Fennell, for the main contractors, submitted that there were special circumstances because the main contractors' inability to rely on clause 13A was not their fault, but the fault of the architect.

How could that possibly matter so long as it was not the sub-contractors' fault? The mere existence of a counter-claim and of the facts whereby the main contractors were unable to rely on the contractual machinery without fault on the part of the sub-contractors, could not constitute "special circumstances" for a stay under Order 47. Such a stay would contradict the terms of the sub-contract and substitute the exercise of the court's powers for those of the adjudicator.

The appeal should be allowed. Lord Justice Dillon and Lord Justice Parker agreed.

For the sub-contractors: John Tackeberry QC and N. S. Bantz (Bantz and Partners, Bristol).

For the main contractors: Richard Fennell (Masons).

By Rachel Davies, Barrister



Highlights from the address of the Chairman, Mr Peter James, at the Golden Jubilee Annual General Meeting, 14 May 1985.

- Contribution income up to 19% to £6.4 million.
- Private Patients Scheme subscriber population up 13% against an overall market growth of approximately 3%.
- Benefits paid up 18% to £5.4 million.
- Market value of investment portfolio up 29% to £7.2 million.
- A further 13% membership increase in the first four months of this year.

New services for members

- Monthly subscription payments.
- Comprehensive and competitive travel insurance package, underwritten by Lloyds.

The move into sponsorship

- BCWA, as a central point of the Jubilee Year celebrations, has signed a two year agreement with the British Sports Association for the Disabled (BSAD) for the sponsorship of their Regional and National Athletic Championships which cater for all types of disability.



Health insurance the less expensive way

Copies of the Annual Report and Accounts may be obtained from the Secretary, BCWA, Bristol House, 40-56 Victoria Street, Bristol BS1 6AB. Tel: 0272 293742

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Over-the-Counter Market

High	Low	Company	Price	Change	div.	%	Actual	Fully
145	123	Asa, Brit. Ind. Ord.	145	0.8	4.3	8.0	8.6	
151	126	Asa, Brit. Ind. CULIS	150	10.0	0.8			
71	51	Airproducts	54	6.4	11.9	8.0	7.1	
42	28	Armitage & Rhodes	34	2.8	8.5	4.2	7.1	
148	108	Bardon Hill	148	3.4	2.5	14.7	24.0	
8	42	Gray Technology	53	3.9	7.4	0.4	7.5	
201	163	CCL Ordinary	163ad	12.0	7.4	0.4	7.5	
112	100	CCL Type Conv. Pref.	110	10.7	13.9	5.7	8.9	
85	84	Carborundum 7.5% PI	88	10.7	12.2	4.6	7.7	
320	182	Carborundum Ord.	184	6.5	13.5	4.6	7.7	
268	170	Frank Hovell Pr.Ord.	260	8.6	3.7	10.4	13.7	
80	28	Frederick Parker	29	12.0	14.5			
58	33	George Shaw	57			3.8	7.7	
50	20	Ind. Precision Castings	20	2.7	12.5	5.5	9.9	
216	164	Jell Grou	164	15.0	6.2	7.3	13.2	
120	101	Jackson Group	109	4.9	4.7	4.9	6.4	
228	211	James Burrough	228	13.7	5.8	8.4	8.4	
87	71	John Howard and Co.	87ad	12.0	14.5			
228	101	Langenhove Ord.	224	15.0	16.3			
30	17	Unilever Holdings	30	1.3	4.3	14.8	21.0	
650	300	Minibone Holding NV	640ad	8.9	1.1	27.9	25.6	
120	31	North Jenkins	57	5.1	8.0	6.8		
32	18	Schramm & A	34	6.7	16.9	17.9	4.1	
92	61	Torday & Carlisle	78		8.2	17.3		
444	330	Trevian Holdings	330	4.3	1.3	16.9	18.4	
100	81	Walter Alexander	100	1.3	4.3	14.8	21.0	
247	218	W. S. Yates	225	1.7	7.5	7.0	12.0	

Prices and details of services now available on Prestal, page 48146

FT UNIT TRUST INFORMATION SERVICE

Abbey Units Tot Mngrs. (a) 1.3 St Paul's Churchyard EC4P 8PZ 01-236 1833

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SECTION III - INTERNATIONAL MARKETS

FINANCIAL TIMES

Wednesday May 15 1985

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WALL STREET

Nervousness surfaces on sales figures

BOND YIELDS dropped sharply yesterday after the Commerce Department disclosed a much smaller increase in April retail sales than Wall Street expected, writes Terry Byland in New York.

While the monthly retail sales statistics are regarded with some scepticism, the April figures increased the chances that the Fed would be able to stimulate the economy without fear of rekindling inflation.

The stock market, however, remained nervous of the implications for corporate profits of a slowing economy.

The Dow Jones industrial average closed 4.20 down at 1,273.30.

The announcement that retail sales had gained only 0.9 per cent, against predictions of up to 2 per cent, quickly pushed bond prices ahead by more than a full point. The yield on the new long bond, the 11.25 per cent of 2015, dropped to 11.10 per cent, a fall of 27 basis points since it was auctioned last Thursday.

Short-term rates also fell in response to further weakness in federal funds. Treasury Bill rates dipped around six basis points, although there seemed

little sign of any flight to quality despite the worsening situation in the Maryland savings and loan industry.

The stock market opened firmly on the back of some institutional buying orders left over from the previous day. However, support faded later and weakness in technology and airline stocks turned the market lower.

Mainframe computer manufacturers were sluggish behind IBM, 2 1/4% down at \$128 and Honeywell, 3/4% off at \$59. But nervousness ahead of this week's launch of important new models brought a sharp drop of 3 1/4% to \$103 1/4 in Digital Equipment, which is still struggling to recover from a difficult trading period. Data General was also weak, down 1/4% at \$39 1/4.

General Electric, 1 1/4% down to \$58 1/4, was again overshadowed by the \$1m fine imposed in the Pentagon fraud case. At \$71, General Dynamics gave up a further 3/4%. Other defence-aerospace stocks were uneven, Lockheed slipping 3/4% to \$48 1/4. United Technologies eased 3/4% to \$40 on the \$1m deal with BASF of West Germany. At \$38 1/4, Texaco gained 1/4% after the annual meeting.

Airline stocks turned down as the session progressed. Pan American shed 3/4% to \$5 1/4, while among the domestic carriers, United gave up 3/4% to \$40 1/4 on the prospect of a strike by the pilots.

Motor stocks steadied, however, with the help of the latest sale statistics from the main manufacturers. Ford ended \$1 down at \$41, and Chrysler at \$34 1/4 closed unchanged. General Motors, however, eased \$1 to \$66 1/4.

The appearance of a buyer for Warner Amex, the television cable operator, left Warner Communications 3/4% off at \$27 1/4.

and American Express, the other joint parent, 3/4% down at \$45.

CBS weakened by 1 1/4% to \$108 1/4 after claiming that profits at Ziff-Davis, the recent acquisition, had been overstated. Taft Broadcasting fell 1 1/4% to \$72 on the profits news. But Telerate, the stock market information service group, dipped 1 1/4% to \$21, with the rise in profits disappointing the market.

Other features included Inland Steel, \$1 higher at \$22 1/4 after closing the Butler-Taconite project, which will help future earnings. Signal Companies, a front runner in the bidding for Hughes Aircraft, jumped 2 1/4% to \$39 1/4 ahead of the outcome of the auction.

In a mixed chemicals sector, Du Pont jumped 1 1/4% to \$57 1/4. Pharmaceuticals were mostly firmer in response to a weakening dollar. Merck added 3/4% to \$103 1/4. Upjohn, however, dipped 1/4% to \$85 1/4 after rising sharply in the previous session.

A dip in federal funds below 6 per cent at mid-session confirmed the move towards lower rates in the money markets. Yield falls increased as maturities lengthened, and 12-month Treasury Bill rates were 12 basis points off. Bond prices held on to their early gains, although trading was not heavy.

AUSTRALIA

Deficit move inspires rise to record

A BROAD range of industrial and mining issues reached record levels in Sydney ahead of the Federal Government's economic measures aimed at cutting the country's deficit.

By the close of trading the All Ordinaries index had risen 5.0 to 898.3, although most issues encountered selling pressure after the indicator passed the 900 barrier shortly before the mid-session break and closed below their peaks.

Strength in the Australian dollar against the U.S. dollar added further confidence, particularly to industrial stocks. Banks were strong, benefiting also from the expectation of solid interim profit performances.

Gold continued their almost uninterrupted rise of the past month.

TOKYO

International influence ignored

THE RISE on Wall Street and the yen's firmness against the U.S. dollar failed to generate investor enthusiasm in Tokyo yesterday, writes Shigeo Nishiwaki of Jiji Press.

The Nikkei-Dow market average shed 37.33 to 12,504.20 on a volume of 381m shares, compared with Monday's 316m. Declines outnumbered advances 439 to 319, with 168 issues unchanged.

Non-ferrous metals and electric power issues, spurred by the yen's rise, advanced in the morning, but their popularity proved short-lived, and profit-taking gradually gathered momentum.

Dowa Mining rose 2 1/2% at one stage, but selling pressure later trimmed the increase and the issue closed at ¥305. Y15. Sumitomo Metal Mining added 2 1/2% to ¥1,790 and Mitsui Mining and Smelting 1 1/2% to ¥1,558.

Some oils also gained ground, with Toa Nenryo Kogyo finishing ¥10 up at ¥1,200 and Maruzen Oil ¥13 up at ¥305. But Showa Shell turned lower, losing ¥16 to ¥286.

Among utilities, Tokyo Electric Power and Kansai Electric Power rose ¥10 to ¥1,800 and ¥30 to ¥1,520, respectively. Tokyo Gas was actively traded, but the issue closed unchanged at ¥183.

Nippon Yakin Kogyo topped the active list with 10.24m shares traded and jumped ¥13 to ¥420. Asahi Chemical, second most active with 9.06m shares, gained an early ¥13 but closed ¥12 lower at ¥916. Among other biotechnologies, Green Cross plunged ¥110 to ¥2,850 and Dainippon Pharmaceutical ¥80 to ¥4,440. But Mochida Pharmaceutical rose ¥220 to ¥10,700, while Kaken Pharmaceutical finished at ¥2,760, up ¥100, and Kuraray at ¥1,050, a net ¥20 higher.

Some assets-heavy stocks that had been popular Monday declined. Mitsubishi Estate shed ¥14 to ¥556.

Blue chips were mixed. Hitachi and Toshiba advanced ¥8 to ¥781 and ¥4 to ¥382, respectively but Sony lost ¥40 to ¥4,100. Minolta Camera slipped below

¥800 to ¥798, down ¥13, because of fears of a slide in profit growth.

Speculator interest continued to push up Nippon Formula Feed, which added ¥21 to ¥408. Mitsui Sugar finished at ¥612, up ¥17.

A leading brokerage house sold bonds for position adjustment at a time when investors were beginning to think prices were rising too rapidly. The yield on the barometer 7.3 per cent government bonds due in December 1993 edged up to 6.585 per cent from Monday's 6.560 per cent.

EUROPE

Post-election dynamism in Milan

POST-ELECTION dynamism underscored record performances in Italy and Germany yesterday while the failure of bargain-hunters to appear in Sweden resulted in a bruising encore of Monday's fall.

The decline in support for the Italian Communist Party in regional elections spurred Milan to a high for the year, with the Banca Commerciale index rising 10.6 points to a peak 305.07. Volume was particularly heavy, and the session was extended by one hour to cope with the surge in orders.

Among the main gainers were Fiat, which hit a 1985 peak of 1,136 with a rise of 11.05, while Finisider advanced 18.50 to 1,025 ahead of the EEC steel subsidy agreement. Olivetti's tie-up with Toshiba merited it a L230 rally to L6,510, a new high, while Montedison firmed L25 to L1,858 on results and capital and capital moves. Italcementi hit a record L91,450 with a rise of L250 while insurer Generali settled at a new record of L45,950 with its L1,050 surge.

Frankfurt turned its back on Sunday's state election and enjoyed the view afforded from yet another new peak. Foreign demand combined with a steady flow of corporate profit statements to bolster the mid-day calculation of the Commerzbank index by 12.4 points to a further all-time high of 1,263.6. Hopes of lower domestic interest rates continued to buoy sentiment.

A broad mix of issues reached new 12-month trading records with the banking sector well represented. Deutsche Bank sparked with a DM 13 surge to DM 492 on a rise in first-quarter earnings while Commerzbank's DM 2.80 rally took it to a high of DM 182.80.

Among the car makers hitting peaks were Daimler, up DM 5 to DM 704, and VW, up DM 1.70 to DM 228.

AEG Telefunken edged 90 pf higher on a confident forecast for 1985 to a top level of DM 118.60 while Munich Re's DM 17 advance - one of the largest in numerical terms - took the insurer below its 1985 record to DM 1,397.

The chemical sector was again actively pursued by foreign investors pushing Hoechst to a 12-month high of DM 219.9, up DM 3.40, while BASF picked up DM 2.90 to DM 209.

Vebs posted a DM 2.10 gain to DM 185.80 and Brown Boveri added 30 pf to DM 211.60.

TWKA, the industrial robot maker, slumped DM 15 to DM 297 after its decision to limit voting rights to ward off a possible takeover.

Bonds extended the gains made in the previous session with rises of up to 40 basis points although the average gain was between 5 and 10 points. The Bundesbank reduced its sales of paper to DM 49.6m after a hefty DM 151.2m on Monday.

Stockholm fell heavily again after the Government's package of credit curbs and interest rate moves.

Electrolux topped the active list with a SKr 8 decline to SKr 306 while Asea surrendered SKr 5 to SKr 330. Falls of SKr 10 were reserved for Astra at SKr 450 despite good first-quarter profits and Volvo at SKr 242.

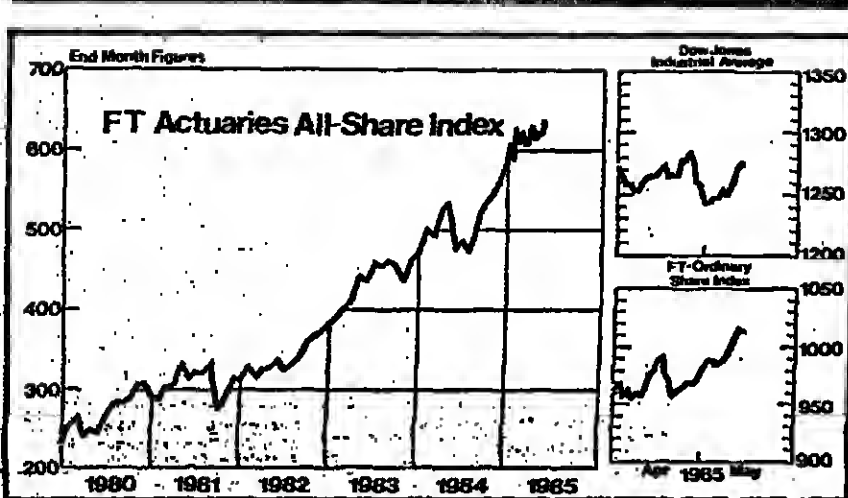
Ericsson managed to limit the damage with only a SKr 2 slip to SKr 284 and Pharmacia moved against the trend with a SKr 2 jump to SKr 190, on results.

Light trading was evident in Paris with most sectors mixed by the close. Brussels finished steady although Madrid managed a modest advance.

Significant price movements in Zurich were limited as most issues settled into a consolidation phase.

Internationals were among the weakest shares in Amsterdam, where a broad decline also weakened banks and insurers. Unilever's Fl 4 drop to Fl 349.50 led the downturn.

KEY MARKET MONITORS



STOCK MARKET INDICES				
	May 14	Previous	Year ago	
NEW YORK				
DJ Industrials	1,273.30	1,277.50	1,151.07	
DJ Transport	693.72	617.38	495.18	
DJ Utilities	159.70	158.85	128.89	
S&P Composite	133.97	134.61	137.5	
LONDON				
FT Ord	1,012.3	1,018.9	878.0	
FT-SE 100	1,326.5	1,333.0	1,092.4	
FT-A All-share	637.44	638.84	519.36	
FT-A 500	696.00	700.66	556.49	
FT Gold mines	511.3	497.1	612.2	
FT-A Long gilt	10.75	10.76	10.64	
TOKYO				
Nikkei-Dow	12,504.20	12,541.53	10,563.3	
Tokyo SE	978.03	981.36	828.81	
AUSTRALIA				
All Ord.	898.3	892.7	739.1	
Metals & Mins.	576.8	573.2	498.1	
AUSTRIA				
Credit Aldien	94.39	94.70	54.87	
BELGIUM				
Belgian SE	2,228.27	2,223.97	-	
CANADA				
Toronto				
Metals & Mins	2,016.8	2,016.3	1,577.0	
Composite	2,660.9	2,648.0	2,271.3	
Montreal				
Portfolio	130.86	130.39	109.9	
DEMARK				
Copenhagen SE	185.75	186.22	185.93	
FRANCE				
CAC Gen	220.7	220.2	178.1	
Ind. Tendance	121.9	121.4	91.1	
WEST GERMANY				
FAZ-Aktien	432.57	428.11	344.24	
Commerzbank	1,263.6	1,251.2	1,003.4	
HONG KONG				
Hang Seng	1,615.00	1,628.29	908.72	
ITALY				
Banca Comin.	305.07	294.47	211.59	
NETHERLANDS				
ANP-CBS Gen	207.9	209.1	163.6	
ANP-CBS Ind	171.9	171.9	131.4	
NORWAY				
Oslø SE	332.27	334.48	288.02	
SINGAPORE				
Straits Times	804.24	801.64	981.26	
SOUTH AFRICA				
ISE Index	-	1,081.1	890.9	
USE Industrials	-	922.7	975.4	
SPAIN				
Madrise	111.49	111.26	88.1	
SWEDEN				
J & P	1,408.94	1,424.75	1,519.28	
SWITZERLAND				
Swiss Bank Ind	431.4	433.0	377.1	
WORLD				
Capital Int'l	May 13	Prev	Year ago	
	207.7	208.1	184.9	
GOLD (per ounce)				
	May 14	Prev		
London	\$327.00	\$322.25		
Zürich	\$327.25	\$321.05		
Paris (Baring)	\$322.85	\$317.56		
London	\$324.00	\$317.00		
New York (June)	\$326.50	\$326.35		
COMMODITIES				
	May 14	Prev		
(London)				
Silver (spot fixing)	\$15.80p	\$16.75p		
Copper (cash)	\$1,221.00	\$1,228.50		
Coffee (July)	\$2,106.50	\$2,033.00		
Oil (spot Arabian light)	\$28.95	\$27.05		

LONDON

BRITISH AEROSPACE shares made a successful debut in London during a generally turbulent session. The stock closed with a 44p premium on its 200p issue price after peaking at 253p.

A wave of late profit-taking made a sharp impact on the market's mood during later trading and forced the FT Ordinary share index to shed its 4.7 early gain to close down 4.6 at 1,012.3 after being 8.1 down at mid-afternoon.

A statement that the retail chain Burton would not be bidding for the fellow retailer, Debenhams took the heat out of several other speculative situations. Debenhams tumbled 21p to 307p, while Burton gained 14p to 471p.

Gilt were guided more by equities than sterling, which continued to improve against the dollar. Renewed foreign support took values higher initially but when it faded the gains were gradually eroded.

Chief price changes, Page 34; Details, Page 35; Share information service, Pages 36-37.

SINGAPORE

FOR THE fifth consecutive day, share prices in Singapore advanced, although most activity remained concentrated on cheaper, speculative issues.

The Straits Times industrial index firmed 2.8 to 804.24, with advances holding almost a three-to-one advantage over declines.

Property stocks were boosted by a reduction in certain property-related taxes with Singapore Land up 6 cents to S\$2.82 and City Development 7 cents higher at S\$1.33. Banks were also generally higher.

HONG KONG

INVESTORS paused to reassess the market in Hong Kong after the recent advances, leaving sellers in control for most of the session.

The Hang Seng index eased 13.29 to 1,615.00 after being down 8.59 at the end of morning trading, influenced by falls among leading stocks such as Hang Seng Bank down HK\$1 to HK\$31, Swire 30 cents lower at HK\$24 and Sun Kai Properties off 20 cents at HK\$12.30.

SOUTH AFRICA

AN ADVANCE across the board advance in Johannesburg was again led by leading gold stocks as buoyancy remained in international bullion markets.

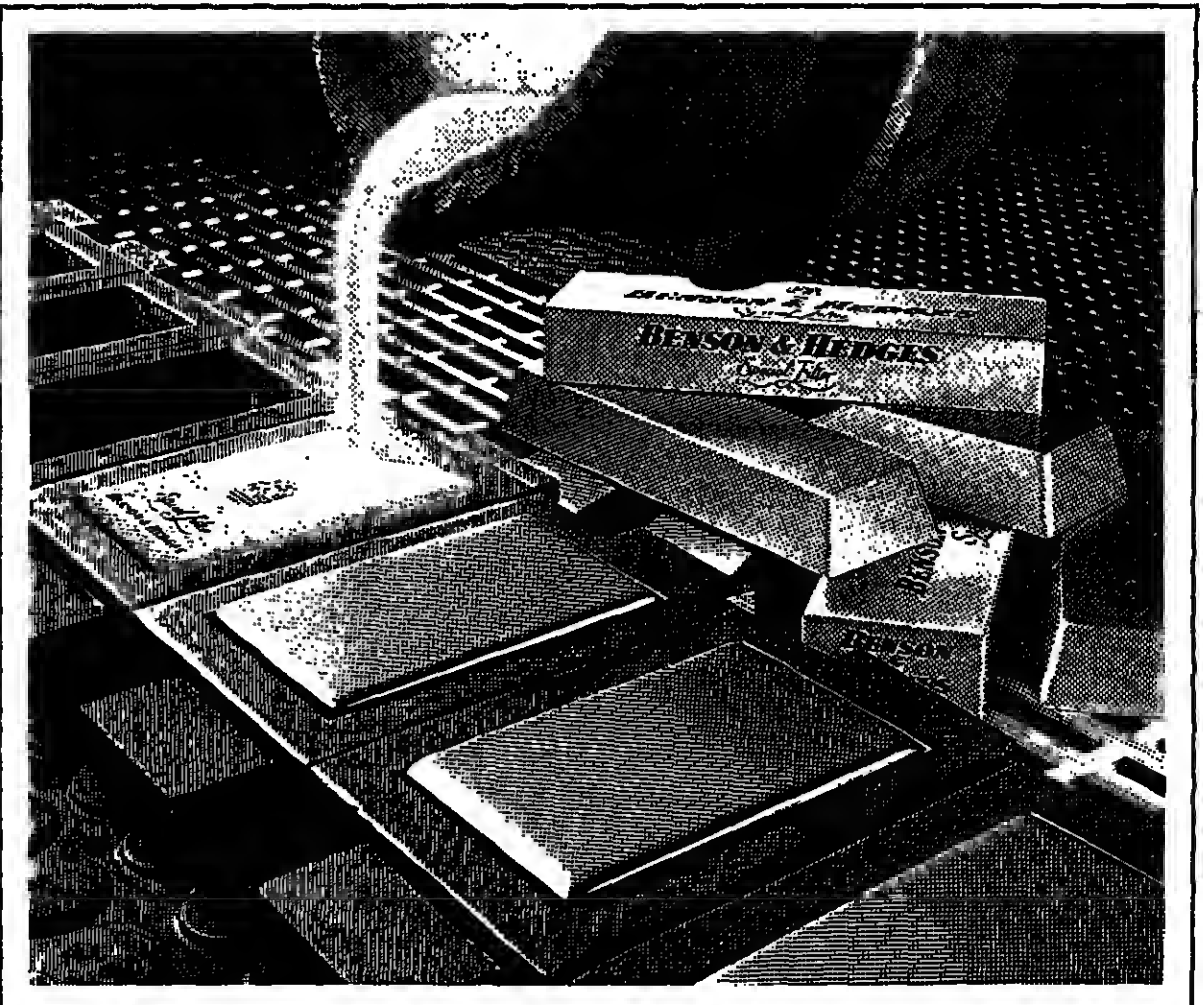
Buffels was the most significant improver, adding R3 to R85.50, while among the cheaper issues Venters rose 50 cents to R19.50.

CANADA

THE MOMENTUM of trading remained high in Toronto as a broad range of stocks traded sharply higher.

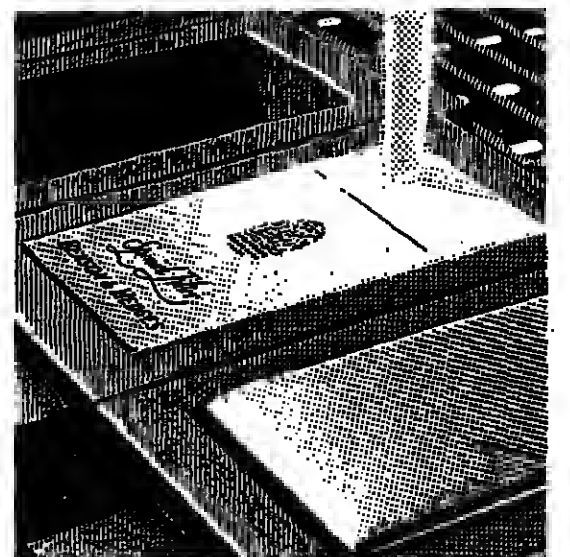
Among the most active, Falconbridge traded up C\$ 1/4 at C\$20 1/4, followed by Molson up C\$ 1/4 to C\$16 1/4 and Canadian Pacific which traded C\$ 1/4 higher at C\$19 1/4.

Turnover was heavy in Montreal as key market indicators advanced.



Discover gold

Benson & Hedges
Special Filter
The world's finest taste in cigarettes



Created and perfected by the House of Benson & Hedges

Financial Times Wednesday May 15 1985

Continued on Page 33

Continued on Page 3

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INDUSTRIALS—Continued

[illegible]**LEISURE--Continued**[illegible]**PROPERTY—Continued**[illegible]

INVESTMENT TRUSTS

[illegible]

: 14

[illegible]

Stock	Price	4
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NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25s. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are based on half-yearly figures. Yields are calculated on the "maximum" basis, earnings per share being converted on profit after taxation and unretained ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "net" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, including exceptional profits/losses but excluding estimated minority shareholdings. Yields are based on the "maximum" dividend payable on ACT of 350 per cent of the 10 per cent of declared dividend and ACT 1992s.

PLANTAT

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VAL 3 IRISH STOCKS

REGIONAL & IRISH STOCKS			
The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency			
Albany Ind 20p	360		160p
Craig & Rose £1	50		50
Fairfax 20p	99 1/2		11 1/2p
Hygeon Rev 1p	157		51
Irish Lloyds 2p	750 1/2		51
Irish Steel £1	97	-3	43
IRISH			
Esch. 12th 1976	£100		71 1/2
Nat. 10th 1976	£100		83
CPI Hidge			50
Carroll Ind.			11 1/2p
Dublin Gas			51
Hall (R) & H I			51
Hewitt Hedges			43
Irish Steel			51
Jacob CW & O J			71 1/2
Uendare			83

YNS — 3-month call rates

Industrials		Utilities		Consumer Goods		Consumer Services		Health Care		Technology		Energy		Financial		Real Estate		Commodities		Other	
Alcoa-Lynn	32	GACN	337	Lumbar Medical	38	Unilever	39	Verizon	39	Wendy's	39	Wynn Resorts	39	Yum Brands	39	Zions Bancorp	39	3M	39	3M	39
BAT Gen	32	Hammill Inc	379	Unilever	39	Verizon	39	Verizon	39	Verizon	39	Verizon	39	Verizon	39	Verizon	39	Verizon	39	Verizon	39
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This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £800 p

Financial Times Wednesday May 15 1985

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INSURANCE, OVERSEAS & MONEY FUNDS

[illegible]

Money Market Trust Funds

PO Box 195, St Helier, Jersey	0534-27561	The Charities Deposit Fund	77 London Way, London EC2M 1DB	01-581 0511
Schneider's Money Funds Ltd				-1-3400
Savings	123-0476			
Equity	123-0476			
Income	123-0476			
Money Market	123-0476			
Global	123-0476			
Property	123-0476			
Art & Collectables	123-0476			
Commodities	123-0476			
Real Estate	123-0476			
Private Equity	123-0476			
Structured Products	123-0476			
Specialist Funds	123-0476			
Investment Solutions	123-0476			
Advisory Services	123-0476			
Research & Analysis	123-0476			
Portfolio Management	123-0476			
Risk Management	123-0476			
Compliance	123-0476			
Regulatory Affairs	123-0476			
Marketing & Sales	123-0476			
Operations	123-0476			
IT & Systems	123-0476			
Human Resources	123-0476			
Legal & Tax	123-0476			
Accounting	123-0476			
Insurance	123-0476			
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Acquisitions	123-0476			
Disposals	123-0476			
Restructuring	123-0476			
Banking	123-0476			
Finance	123-0476			
Insurance	123-0476			
Investment	123-0476			
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Marketing	123-0476			
Operations	123-0476			
Research	123-0476			

Money Market Bank Accounts

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COMMODITIES AND AGRICULTURE

World sugar production estimates are raised

WEST GERMAN sugar statistics agency F. O. Licht has raised its world sugar production forecast for 1984/85 (Sept./Aug.) to 100.85m tonnes against 97.55m estimated in late January. It puts 1983/84 output at 96.39m tonnes.

In its third estimate of 1984/85 production, Licht put output in the Soviet Union at 8.5m tonnes compared with 8.2m in its second estimate and 8.76m in 1983/84.

Cuban production is estimated at 8.2m tonnes against 8.3m. The EEC forecast is also raised at 13.26m against 13.24m and 11.7m in 1983/84.

The Indian Food Ministry has signed contracts to import 700,000 tonnes of sugar for delivery by July and may import more.

The State Trading Corporation of India (STC) has signed the contracts since March to overcome a domestic shortage. The Ministry told Reuters, and added that the government will not hesitate to import further sugar above contracted 700,000 tonnes to ensure its adequate availability for internal consumption.

India imported 500,000 tonnes of sugar in 1984, its first imports in three years, to overcome a slump in production to 5.89m tonnes in 1983-84 from 8.23m in 1982-83 due to drought.

World copra production in 1984 is estimated at 2.25m tonnes, up from 3.67m last season, but will still be well below the 10 year average of 4.6m tonnes, the Hamburg-based newsletter Oil World said.

Cocunut oil output is estimated at 2.25m tonnes against 2.23m in 1983-84.

The Philippines appear to have overcome the effects of the severe 1982-83 drought and coconut production could reach 1.5m tonnes from 1984's 1.6m. Average Philippine output, however, is between 2.4m and 2.6m tonnes, Oil World said.

World rice production in 1984 is estimated at 470m tonnes, an increase of 20m tonnes over 1983, according to the UN Food and Agriculture Organisation.

Sterling's rise pushes base metals lower

BY RICHARD MOONEY

STERLING'S continued strength against the dollar pushed London Metal Exchange (LME) base metals prices lower again yesterday. The biggest fall was in the aluminium market which lost £13 in the cash position to £576.50 a tonne. This was entirely due to the currency factor—in dollar terms the price was up about \$5.

The copper market fell was cushioned by covering against earlier solid sales. The three month high grade quotation moved about £12 lower in the morning, but by the close had recovered to £1,207.75 a tonne, down only 2.75 in the day.

A 55.5 fall in the cash price to £1,221.25 was well below the level required to reflect the rise in the value of the pound.

The zinc decline was also less than might have been expected, thanks mainly to support buying on behalf of the International Tin Agreement (ITA) buffer stock. This kept the decline in the cash standard to £148 at £2,415 a tonne.

In Kuala Lumpur the Straits time price regained another 4 Malay sents of its recent fall, but at M28.81 it remained below the £1 floor price, which specialists expect at the end of the month when the buffer stock manager temporarily halted support buying.

Zinc was the only base metal to defy the general downward pressure. Trade and speculation helped the cash position to regain £150 of Monday's £17 fall at £665 a tonne.

The Philippines appear to have overcome the effects of the severe 1982-83 drought and coconut production could reach 1.5m tonnes from 1984's 1.6m. Average Philippine output, however, is between 2.4m and 2.6m tonnes, Oil World said.

World rice production in 1984 is estimated at 470m tonnes, an increase of 20m tonnes over 1983, according to the UN Food and Agriculture Organisation.

In New York a metal workers' union official said labour contract negotiations between St Joe Resources, a subsidiary of Fluor Corporation, and workers at its Hercules plant, Missouri, read smaller, are scheduled to resume on Friday.

Weekly metal prices as supplied by Metal Bulletin:

ANTIMONY: European free market, 99.5 per cent, \$per tonne, in warehouse, 2,650-2,750.

BISMUTH: European free market, min. 99.99 per cent, \$per lb, in warehouse, 100-110.

CADMIUM: European free market, min. 99.99 per cent, \$per lb, in warehouse, 100-110.

COPPER: European free market, min. 99.99 per cent, \$per lb, in warehouse, 100-110.

MERCURY: European free market, min. 99.99 per cent, \$per flask, in warehouse, 285-295.

MOLYBDENUM: European free market, min. 99.99 per cent, \$per lb, in warehouse, 100-110.

SELENIUM: European free market, min. 99.99 per cent, \$per lb, in warehouse, 100-110.

URANIUM: Nuxeo exchange value, \$ per lb, U3O8, 14.25.

China tea soars after cold spring

Chinese tea prices have soared as much as 40 per cent this year because of a sharp decline in production following an abnormally cold and rainy spring, the government in Peking said yesterday.

The official news agency, Xinhua, said tea bushes in Zhejiang and Anhui provinces, the main tea-producing regions, sprouted late because of the weather and picking was delayed.

Last month tea purchases by state-run commercial departments dropped 60 per cent compared with the same period in 1984, the agency said, and the decline may affect exports.

Big increases have been reported in prices of high-grade teas, it said. No specific prices were disclosed, but some quality teas have quadrupled in price.

China is the third-largest tea producer next to India and Sri Lanka and exported 139,300 tonnes of tea in 1984, accounting for 12 per cent of the world total.

Pakistan seeks supplies of soyabean oil

Pakistan is expected to invite tenders for the supply of about 67,000 tonnes of soyabean oil this week, according to officials in Islamabad.

The oil is expected to cost nearly \$50m at the present price level, and will be financed under the U.S. PL-480 aid programme.

Islamabad bought 47,000 tonnes of edible oil between January and mid-March this year, for the state-owned Ghee Corporation of Pakistan. The first purchase of 20,000 tonnes in January, was priced at \$679.39 a tonne. A similar quantity was bought in February at \$689.45 a tonne, and 17,000 tonnes were purchased in March.

Alongside the state sector plants the private sector is also engaged in manufacturing cooking oil. Malaysian palm oil has recently been bought by private concerns from Singapore-based companies, against each payment of 100s from the Jeddah-based Islamic Development Bank.

Sarita Kendall reports on the problems facing Colombia

Growing anxieties in coffee

COLOMBIA'S high level of coffee production has been a heavy burden in recent years. The cost of buying up the harvest and warehousing stocks equivalent to a year's crop is a steady drain on the National Coffee Fund's depleted resources. But it looks as though the combination of new measures and coffee rust disease is beginning to have an effect on output. Some growers fear that the trend could even endanger export levels in the future, though economic policy makers welcome it.

When, at the end of the 1970s, Colombia's annual production first jumped to more than 12.5m bags (60 kilos each), exports were booming and there was little left over to store away. Since then foreign sales have dropped to 10m bags or less, while the local market, only 10m bags, has expanded. At the beginning of 1985 stocks stood at 12.2m bags—hence Colombia's special concern about irregularities in the world market, and sales to countries outside the International Coffee Organisation (ICO). At the moment prices are not being filled out.

Stocks would have been even higher but for heavy rains and cloudy skies which damaged the main end-of-year harvest in the heart of Colombia's coffee growing country, and brought 1984 production down to 11.5m bags.

The coffee growers' federation, Fedecafe, estimates the 1985 crop at about 12.5m bags, and is using a variety of policy tools to try to keep production at a lower level.

One important change is attention being given to the changing of a one-price policy, with credit available at subsidised interest rates. This brings down the number of trees in production while maintaining the country's potential. Señor Gilberto Arango Londoño, President of the Coffee Exporters Association, says Colombia's rate of renewal was very low compared with other countries, and the decision to speed up the process is already showing results.

The coffee federation is also investing in a large-scale diversification programme designed to persuade farmers to switch from coffee to other crops. Until recently diversification meant finding ways to supplement growers' incomes in marginal coffee areas, but now the aim is to replace more than 30,000 hectares of coffee with fruit trees, sugar cane, and other crops. In addition, 50,000 hectares of land in coffee growing areas are to be reforested.

The World Bank is contributing a \$50m loan and, in all, more than \$300m is being allocated to the five year programme. Not only will coffee output be reduced, but new production will be limited.

Whether the amendments to the coffee law by the Board concerning voting procedures and published by them in the February 1985 edition of the 'Milk Producer' be submitted to the Ministry of Agriculture, Fisheries and Food and the Secretary of State for Wales. Please answer 'yes' or 'no'.

A referendum of milk producers last autumn voted overwhelmingly in favour of a change to a one-price policy, vote, reflecting dissatisfaction with the MMB's policy towards the threat of EEC milk output cuts. The Board was widely felt to have sought to protect its large rather than small producers from the cuts.

The new poll represents a rear-guard action by larger producers against the change. Voting is taking place under the weighted system which means that, in practice, two thirds of producers responsible for two thirds of milk output, must support the change if it is to be implemented.

Welsh farmers demand fresh poll

THE FARMERS' UNION of Wales has called for a re-run of the Milk Marketing Board poll on changing the producers' voting system because of what it described as the "incomprehensible and totally misleading" manner in which the issue is being put to producers.

FUW leaders say that they have been inundated with queries from milk producers unable to understand the way the question has been worded on the voting form. Mr Huw Hughes, FUW president, has written to the Board demanding a re-run of the poll, due to be completed on June 7.

Instead of asking a straightforward question as to whether producers are either in favour of changing to a one-price, one-vote system, or keeping the current weighted system, which gives each producer in MMB elections one vote plus one for every ten cows in his or her herd, the question reads:

"Whether the amendments to the scheme submitted by the Board concerning voting procedures and published by them in the February 1985 edition of the 'Milk Producer' be submitted to the Ministry of Agriculture, Fisheries and Food and the Secretary of State for Wales. Please answer 'yes' or 'no'."

A referendum of milk producers last autumn voted overwhelmingly in favour of a change to a one-price policy, vote, reflecting dissatisfaction with the MMB's policy towards the threat of EEC milk output cuts. The Board was widely felt to have sought to protect its large rather than small producers from the cuts.

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UK oilseed processing still in decline

Oilseed processing and refining in the UK declined further in 1984, the Seed Crushers and Oil Processors Association (SCOPE) said.

The total tonnage of seeds crushed fell 12 per cent and output of crude oils by 4 per cent, compared with 1983. The industry was one-third down on the peak year of 1980, SCOPE said. The main factors were the rationalisation in operations of many major companies and an unusually low level of world soyabean supplies.

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LONDON MARKETS

BASE METALS

ALUMINIUM

	Unofficial + or -	High/Low
	(pence/tonne)	
Cash	2876.7-16	2879.5-16
3 months	2899.5-15	2905.5-16

Official closing (am): Cash 2880.1 (2.22-21); three months 2905.2 (0.00-1.15); settlement 2881 (891). Final Kero close: 2898-8.5. Turnover: 11,300 tonnes.

COPPER

	Unofficial + or -	High/Low
	(pence/tonne)	
Cash	12180-20	12184-15
3 months	12207.5-15	12213-15

Official closing (am): Cash 12184.1 (2.22-21); three months 12207.5 (1.15-2.22); settlement 1218 (1,222). Final Kero close: 1206-6.

LEAD

	Unofficial + or -	High/Low
	(pence/tonne)	
Cash	2077.5-15	2081-15
3 months	2080-15	2085-15

Official closing (am): Cash 2124.6 (2.22-21); three months 2085.2 (3.00-3.57); settlement 2085 (1,222). Final Kero close: 2080-5. Turnover: 7,200 tonnes. U.S. Spot: 20.0-21.0 cents per pound.

NICKEL

	Unofficial + or -	High/Low
	(pence/tonne)	
Cash	24415-25	24448-48
3 months	24450-25	24492-48

Official closing (am): Cash 24440.5 (4.43-50); three months 24450.2 (4.43-50); settlement 2445 (1,222). Final Kero close: 2435-5. Turnover: 1,125 tonnes.

TIN

	Unofficial + or -	High/Low
	(pence/tonne)	
Cash	29485-30	29491-30
3 months	29491-30	29495-30

Official closing (am): Cash 29485.2 (2.42-28); three months 29491.2 (2.42-28); settlement 2948 (2,422). Final Kero close: 2945-30. Turnover: 1,500 tonnes. Straits time M28.51 (2.77) kg.

ZINC

	Unofficial + or -	High/Low
	(pence/tonne)	
Cash	2664-5	2668-5
3 months	2664-5	2668-5

Official closing (am): Cash 2662.2 (2.42-28); three months 2668.2 (2.42-28); settlement 2662 (2,422). Final Kero close: 2654-5. Turnover: 11,300 tonnes. U.S. Spot: 48.50-47.75 cents per pound.

MAIN PRICE CHANGES

METALS

	May 14 + or -	Month

Aluminium: £1100-11100. Copper: £1150-11600. Gold: £1150-11600. Silver: £1150-11600.

Gold: £1150-11600. Silver: £1150-11600. Tin: £1150-11600. Zinc: £1150-11600.

Lead: £1150-11600. Nickel: £1150-11600. Cobalt: £1150-11600. Manganese: £1150-11600.

Iron: £1150-11600. Steel: £1150-11600. Coal: £1150-11600. Oil: £1150-11600.

Gas: £1150-11600. Electricity: £1150-11600. Wheat: £1150-11600. Corn: £1150-11600.

Soyabean: £1150-11600. Cotton: £1150-11600. Rubber: £1150-11600. Tea: £1150-11600.

Coffee: £1150-11600. Sugar: £1150-11600. Cocoa: £1150-11600. Beans: £1150-11600.

Lentils: £1150-11600. Chickpeas: £1150-11600. Peas: £1150-11600. Potatoes: £1150-11600.

Onions: £1150-11600. Carrots: £1150-11600. Cabbages: £1150-11600. Lettuce: £1150-11600.

Spinach: £1150-11600. Broccoli: £1150-11600. Cauliflower: £1150-11600. Brussels: £1150-11600.

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May 15 1985

CURRENCIES, MONEY and CAPITAL MARKETS

FOREIGN EXCHANGES

Bearish tone depresses dollar

The dollar closed around the day's lows in currency markets yesterday after fluctuating quite sharply in generally nervous trading. News of a 0.9 per cent rise in U.S. retail sales prompted an unexpected demand for the dollar but it fell just as sharply in later trading as profit taking developed. Dealers suggested that retail sales figures on their own were insufficient to influence the markets' current bearish tone.

Much will depend on today's industrial production figures as these should give an indication as to whether the increase in retail sales is just a further reflection of increased imports caused by a stronger dollar or genuine upturn in domestic growth. Against this background the dollar continued to reflect recent market uncertainty and fell to a three-month low against the D-Mark to finish at DM 3.8775 from DM 3.8525 on Monday. It had touched a high of DM 3.8400.

Elsewhere it finished at Sfr 2.5850 from Sfr 2.5825 and Y240.55 compared with Y231.30. It was also lower against the French franc at FF 9.30 from FF 9.37. On Bank of England figures, the dollar's index fell to 144.9 from 145.9. STERLING — Trading range against the dollar in 1985 is 1.2340 to 1.0525. April average 1.2414. Exchange rate index 73.2 against 72.9 on Monday. It opened at 72.4 which was the low of the day. The six months

EMS EUROPEAN CURRENCY UNIT RATES

Currency	Unit	% change from 1984	% change from 1983	% change from 1982
Belgian franc	44.8000	+0.27	+0.47	+1.54
Dutch guilder	3.6000	+0.27	+0.47	+1.54
French franc	6.5596	+0.27	+0.47	+1.54
German mark	1.0000	+0.27	+0.47	+1.54
Italian lira	1.3600	+0.27	+0.47	+1.54
Spanish peseta	166.6371	+0.27	+0.47	+1.54
Swiss franc	2.0000	+0.27	+0.47	+1.54
UK pound	1.0000	+0.27	+0.47	+1.54

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Finance Times.

FINANCIAL FUTURES

Strong close

Trading in the short-dated interest-rate contracts on the London International Financial Futures Exchange has now moved strongly to September delivery.

September Eurodollars opened unchanged at 90.85, nearly the lowest level of the day, and quickly rose to 90.87 where profit-taking took the price down to 90.84. Selling was not heavy, however, and the market remained steady until the Chicago opening and the publication of April U.S. retail sales

figures. The rise of 0.9 per cent was lower than expected, and took the contract up to the day's high of 90.96, with Chicago touching 91.03. The revised fall of 0.7 per cent for March retail sales, against an earlier drop of 1.9 per cent, indicated a rather stronger first-quarter economic performance than before, and triggered an immediate sell-off.

This took the contract back to 90.84, before renewed buying lifted the price almost back to the day's high, when it closed at 90.93.

LONDON

Three-month Eurodollar	High	Low	Prev
June	91.55	91.46	91.47
Sept	90.85	90.84	90.85
Dec	90.49	90.38	90.38
March	90.13	90.03	90.03
June	89.83	89.70	89.70

CHICAGO

Three-month Sterling	High	Low	Prev
June	72.14	72.12	72.12
Sept	72.14	72.10	72.10
Dec	72.14	72.10	72.10
March	72.14	72.10	72.10
June	72.14	72.10	72.10

£ IN NEW YORK

Spot	1.7700	1.7700	1.7700
1 month	1.7700	1.7700	1.7700
3 months	1.7700	1.7700	1.7700
6 months	1.7700	1.7700	1.7700
12 months	1.7700	1.7700	1.7700

Forward premium and discount apply to the U.S. dollar.

POUND SPOT—FORWARD AGAINST POUND

May 14	Day's spread	Close	One month	% Three months	% Six months	% Twelve months
U.S.	1.2340-1.2340	1.2340	0.50-0.50	0.50	0.50	0.50
Canada	1.2340-1.2340	1.2340	0.50-0.50	0.50	0.50	0.50
France	1.2340-1.2340	1.2340	0.50-0.50	0.50	0.50	0.50
Germany	1.2340-1.2340	1.2340	0.50-0.50	0.50	0.50	0.50
Italy	1.2340-1.2340	1.2340	0.50-0.50	0.50	0.50	0.50
Spain	1.2340-1.2340	1.2340	0.50-0.50	0.50	0.50	0.50
Sweden	1.2340-1.2340	1.2340	0.50-0.50	0.50	0.50	0.50
Switzerland	1.2340-1.2340	1.2340	0.50-0.50	0.50	0.50	0.50
Japan	1.2340-1.2340	1.2340	0.50-0.50	0.50	0.50	0.50
Australia	1.2340-1.2340	1.2340	0.50-0.50	0.50	0.50	0.50
South Africa	1.2340-1.2340	1.2340	0.50-0.50	0.50	0.50	0.50

DOLLAR SPOT—FORWARD AGAINST DOLLAR

May 14	Day's spread	Close	One month	% Three months	% Six months	% Twelve months
U.S.	1.2340-1.2340	1.2340	0.50-0.50	0.50	0.50	0.50
Canada	1.2340-1.2340	1.2340	0.50-0.50	0.50	0.50	0.50
France	1.2340-1.2340	1.2340	0.50-0.50	0.50	0.50	0.50
Germany	1.2340-1.2340	1.2340	0.50-0.50	0.50	0.50	0.50
Italy	1.2340-1.2340	1.2340	0.50-0.50	0.50	0.50	0.50
Spain	1.2340-1.2340	1.2340	0.50-0.50	0.50	0.50	0.50
Sweden	1.2340-1.2340	1.2340	0.50-0.50	0.50	0.50	0.50
Switzerland	1.2340-1.2340	1.2340	0.50-0.50	0.50	0.50	0.50
Japan	1.2340-1.2340	1.2340	0.50-0.50	0.50	0.50	0.50
Australia	1.2340-1.2340	1.2340	0.50-0.50	0.50	0.50	0.50
South Africa	1.2340-1.2340	1.2340	0.50-0.50	0.50	0.50	0.50

UK and Ireland are quoted in U.S. currency. Forward premium and discount apply to the U.S. dollar and on the individual currency. Dollar rate is for convertible franc. Financial Times.

OTHER CURRENCIES

May 14	£	\$	DM	Yen	Sfr	FF	ITL	Esc	Rs	₹
Argentina	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340
Australia	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340
Canada	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340
France	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340
Germany	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340
Italy	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340
Japan	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340
South Africa	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340
Sweden	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340
Switzerland	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340
U.S.	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340

CURRENCY MOVEMENTS

May 14	Bank of England	Morgan Guaranty	Deutsche Bank	Paribas	Comptoir d'Escompte	Ind. Comp. Bank	Ind. Comp. Bank	Ind. Comp. Bank	Ind. Comp. Bank	Ind. Comp. Bank
U.S.	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340
Canada	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340
France	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340
Germany	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340
Italy	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340
Spain	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340
Sweden	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340
Switzerland	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340
Japan	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340
Australia	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340
South Africa	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340

Margin Guaranty changes: Average 1980-1982=100, Bank of England Index (base average 1975=100).

CURRENCY RATES

May 14	Bank of England	Morgan Guaranty	Deutsche Bank	Paribas	Comptoir d'Escompte	Ind. Comp. Bank	Ind. Comp. Bank	Ind. Comp. Bank	Ind. Comp. Bank	Ind. Comp. Bank
U.S.	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340
Canada	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340
France	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340
Germany	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340
Italy	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340
Spain	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340
Sweden	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340
Switzerland	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340
Japan	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340
Australia	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340
South Africa	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340

CS/SOR rate for May 13: 1.26219.

EXCHANGE CROSS RATES

May 14	£	\$	DM	Yen	Sfr	FF	ITL	Esc	Rs	₹
Argentina	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340
Australia	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340
Canada	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340
France	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340
Germany	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340
Italy	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340
Japan	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340
South Africa	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340
Sweden	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340
Switzerland	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340
U.S.	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340	1.2340

EURO-CURRENCY INTEREST RATES

May 14	U.S. Dollar	Canadian Dollar	Dutch Guilder	Swiss Franc	D-Mark	French Franc	Italian Lira	Belgian Franc	Yen	Danish Krone
Short-term	12.125	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
7 days notice	12.125	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Three months	12.125	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
Six months	12.125	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00
One year	12.125	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00	8.00

Asian 3 (including cross to Singapore): Short-term 8.00-8.50 per cent; seven days 8.00-8.50 per cent; three months 8.00-8.50 per cent; six months 8.00-8.50 per cent; one year 8.00-8.50 per cent. Long-term Eurodollars: two years 10.00-10.50 per cent; three years 10.00-10.50 per cent; four years 10.00-10.50 per cent; five years 11.00-11.50 per cent. Short-term rates are call for U.S. dollars and Japanese yen; others two days' notice.

MONEY MARKETS

London rates slightly easier

Interest rates had a slightly softer tone on the London money market yesterday. Trading was quiet, but dealers suggested there is a good underlying mood at present. Sterling's strength against the dollar is helping investors continue to be attracted by the high level of London rates. The current rate structure was heavily underpinned last week by the very disappointing mid-April UK money supply and bank lending figures. These set back any thoughts of lower clearing bank base rates for at least a month, and any downward drift in money market rates must be seen against this background.

UK clearing banks base lending rate 12.125 per cent since April 19

Three-month interbank closed at 12.125 per cent, compared with 12.125 per cent, while discount houses offered to buy three-month eligible bank bills at 12.125 per cent against 12.125 per cent.

The Bank of England forecast a money market shortage of £900m, but provided total help of only £770m.

In an early round of assistance, £120m bills were bought outright, by way of £250m bank

(Market closing rates)

	Canadian Dollar	Dutch Guilder	Swiss Franc	D-mark	French Franc	Italian Lira
3-6 Mo.	5 3/4-6 1/4	4 1/2-5 1/4	5 1/4-6 1/4	10-10 1/2	10-10 1/2	
6-12 Mo.	5 1/2-6 1/4	4 1/4-5 1/4	5 1/4-6 1/4	10-10 1/2	10-10 1/2	
1-3 Yr.	5 1/4-6 1/4	4 1/4-5 1/4	5 1/4-6 1/4	10-10 1/2	10-10 1/2	
4-5 Yr.	5 1/4-6 1/4	4 1/4-5 1/4	5 1/4-6 1/4	10-10 1/2	10-10 1/2	
6-7 Yr.	5 1/4-6 1/4	4 1/4-5 1/4	5 1/4-6 1/4	10-10 1/2	10-10 1/2	
8-9 Yr.	5 1/4-6 1/4	4 1/4-5 1/4	5 1/4-6 1/4	10-10 1/2	10-10 1/2	
10-11 Yr.	5 1/4-6 1/4	4 1/4-5 1/4	5 1/4-6 1/4	10-10 1/2	10-10 1/2	
12 Yr.	5 1/4-6 1/4	4 1/4-5 1/4	5 1/4-6 1/4	10-10 1/2	10-10 1/2	

FINANCIAL TIMES SURVEY

South Korea

Within a generation, South Korea has risen from dire poverty and war to economic power. Now it faces crucial social and political decisions on its future.

Prodigy on brink of adulthood

By Anatole Kaletsky

SOUTH KOREA today is like a child prodigy on the brink of adulthood. For more than 20 years the world has marvelled at this extraordinary nation, born in the ashes of war with no inheritance but native wit and driving ambition, has performed feats of economic agility which seemed to defy all experience or expectations.

Within a generation it has pulled itself up from direst poverty to within hailing distance of some European countries. Its income per head in 1980 was below that of Bolivia, Sudan and Ghana, yet today South Korea is far ahead of Turkey and closing on Portugal and Yugoslavia. This year its GNP per head will break through the symbolic \$2,000.

Korea is at the level of economic development and per capita output, adjusted for inflation, reached by Japan in the late 1950s. Within another generation it expects to be enjoying living standards equal to Japan's today.

In one market after another Korea's industries have challenged the U.S., Europe and Japan. In civil engineering, it leads the world; in shipbuilding it is second only to Japan; in steel, electronics and automobile manufacture it is becoming an impressive force.

All this has been achieved first

alongside an exceptional commitment to economic equality and social welfare. Ever since land reforms in the late 1940s, redistributed three-quarters of the cultivable land, and fixed a constitutional ceiling of three hectares on any individual's holdings, Korea has been a passionately egalitarian country. Elimination of poverty, provision of health and education and judicious use of subsidies and price controls to ensure that rural population shared in the benefits of industrial productivity growth have been pivotal to the Government's economic plans.

Korea's income distribution is almost as equal as in Israel and Yugoslavia and is a far cry from the extremes of poverty and wealth in other industrialising countries like Mexico and Brazil. It has all but eliminated malnutrition and spectacularly improved the health of its people — life expectancy has risen by an average of eight months every year that has passed since 1960.

It has achieved universal literacy and today a Korean teenager is more likely to complete a full high-school curriculum than a youth in Italy or Britain.

Yet with all these accomplishments, Korea seems strangely insecure as it prepares to claim its place among the affluent nations.

Formally, this place may come towards the end of the decade, when Korea may become the

club of advanced industrialised countries, the Organisation for Economic Co-operation and Development. Emotionally, Korea's moment of maturity seems even closer.

As the country prepares to host the Olympics in 1988, it revels in the first intoxicating experience with democracy after February's legislative elections. Above all, it awaits with trepidation to see if President Chun Doo Hwan will fulfil his promise to allow in 1988 the nation's first peaceful transition of power.

Possessive

The impatience is almost palpable. Koreans can hardly wait to cross the threshold from the third to the first world.

But as the prodigy comes of age, it is discovering that there is more to adult life than economic virtuosity. The single-minded pursuit of modernisation has left an embarrassing gap between the country's economic maturity and its

dangerously backward, potentially oppressive, political system.

Like a possessive parent, the military establishment which guided Korea through its early triumphs is reluctant to let go, even as the maturing nation reaches for greater freedom.

On the other side opposition politicians and student leaders are like impetuous youths; they see no reason why their country should have to wait for full

democracy a moment longer. They have been seeking democratic rights for more than 20 years. Some, like the charismatic Mr Kim Dae-Jung, have spent much of their adult lives in prison or exile.

They have run out of patience and are in no mood to compromise with President Chun's ultra-cautious plans for reform.

There are good reasons, then, why many Koreans are full of trepidation about their political future. The stunning swing against the governing Democratic Justice Party in the February elections has undercut the president's gradualism and set both sides on a confrontation course.

Everybody, from Kim Dae Jung to some of the president's own advisers seem to agree on the causes of the Government's unpopularity. As Koreans move closer to the affluence and self-confidence of the advanced industrialised societies, their resentment increases for a ruler who shot his way to power and lacks political legitimacy.

A nation with universal literacy and education feels patronised by clumsy Press censorship and petty restrictions on political activity—even if many of the serious abuses have been rectified, with the exception of the continuing ban on public political activity by Kim Dae Jung and Kim Young Sam, the other main opposition leader.

"They see democracy as the one thing the Japanese, Americans and Europeans have suppression of the Kwangju



President Chun (left) met President Reagan as a close ally in Washington this year but he faces pressure from the U.S. Congress to push towards full democracy in South Korea

got and they haven't," says a foreign banker.

The great question now is whether these open resentments will make President Chun even tougher and more defensive, further alienating the opposition and the people. This could restore the vicious circle of ever-intensifying repression and dissidence which has never left the heart of Korean politics.

Every Korean remembers how the student protests which ousted President Syngman Rhee in 1960 were followed rapidly by the military's first seizure of power. And it is too easy to imagine Korea's economic accomplishments being discredited by another political disaster like President Park Chung Hee's assassination in 1979 and the bloody

riots which led to Gen Chun Doo Hwan's military coup.

Even in the present relatively easy going atmosphere of Seoul taxi drivers will frequently roll up their windows when they pass a university campus. Tear gas is a daily hazard as student militants attempt to take to the streets with their demands for "democracy now." Battalions of heavily-armed riot police ensure that they do not take a step outside their university grounds.

In spite of the dangers of confrontation, however, there are reasons for optimism about the political outlook. The real gap between the Chun administration and the opposition is tiny in comparison with the vast ideological gulfs in many other developing countries.

There is almost complete consensus on the basic issues of anti-Communism, pro-U.S. foreign policy, military vigilance against North Korea and the economic system which a presidential adviser describes as "full-blooded capitalism with Korean-style welfare."

It is only the introduction of democracy, heavy tinged with personality politics, which separates the Government from the opposition. Personal ambitions and animosities can precipitate political disasters and it is possible to understand the opposition's fear that the Government will abuse the electoral system to ensure an orderly but meaningless "transfer of power" from President Chun to a handpicked successor with military connections.

Nevertheless, examples in

other third world countries, particularly Brazil, show how readily the democratic process can develop an irresistible momentum once given half a chance. And it would be churlish to deny, after February's election, that President Chun has shown himself to be something of a democrat.

If nothing else, pressure from the U.S. Congress, in no mood for indulgence towards third world dictatorships flooding America with cheap imports, should help push the government towards democracy rather than repression.

But political growing pains are not the only problems which Korea faces as it moves towards

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Teeth gnashing on tight money overkill

Economy
ANATOLE KALETSKY

ECONOMICS TAKES on an Albee in Wonderland quality in Korea. Imagine, for instance, the business community wailing and gnashing its teeth in response to the following economic prospects: 6.8 per cent GNP growth; inflation of 2 to 3 per cent; an 8 to 9 per cent increase in exports; to top it all off, a fiscal boost amounting to 9.7 per cent in extra government spending, just to ensure that the economy keeps roaring ahead in the following year.

Yet businessmen's dismay about immediate prospects is almost universal. "Tight money is overkill," says the Korea Development Institute's Mr. Koo Suk Mo, vice-president of the Federation of Korean Industry, and these words are echoed all over the country, particularly among the big industrialists. In line with government instructions to favour smaller businesses, banks are refusing new credit to giant conglomerates, which are being forced to turn to the unregulated short-term paper markets at interest rates of 15 per cent or more in real terms.

Turning to export prospects, the outlook seems equally daunting. The U.S. market,

which last year absorbed 36 per cent of Korea's \$28.2bn in exports, is turning sluggish and raising new protectionist barriers all the time.

Japan, the second biggest export market spent \$12bn more on Korean goods last year than in 1983, but increased its sales to Korea by \$1.4bn, thus widening the yawning bilateral trade deficit which is at the root of Korea's whole balance of payments problem.

In Europe, Korean exports are running into real trouble, not only because of protectionism, but because the won, informally pegged to a basket of currencies dominated by the U.S. dollar, has appreciated in value, undermining the competitiveness of Korean goods.

Does all this mean that business and Government disagree with the Korea Development Institute's official forecast of 6.8 per cent growth in 1985, published earlier this month?

Growth

Not necessarily; there may be doubts about the precise growth rate, especially if a marked slowdown in the U.S. economy reduces world trade growth below the institute's 4.5 per cent expectation; but the real problem lies in the incredibly ambitious expectations built up over the past two decades. Since 1960, Korea's growth has averaged 8.7 per cent a year,

and to revised five-year plan published by President Chun in 1983 promised a growth rate of 7.5 per cent a year from 1984 to 1988. The sixth plan, which is now in preparation by the Korea Development Institute, will aim for a similar growth rate in 1987-91 and Mr. Ahn Sung Chul, president of the KDI, insists that 7-8 per cent annually is a realistic projection of Korea's long-term growth potential until the end of the century.

Thus, in the wonderland of Korean economic history, a growth rate of 6.8 per cent, two percentage points below the historic average, is seen as a disappointment, not a triumph. If even the KDI's forecast is not achieved, and private economists generally expect a growth rate nearer 6 to 6.5 per cent this year—there could be real difficulties for some Korean businesses.

Companies with debt-equity ratios of five or more and the slimmest of profit margins have prospered for years in Korea on rapidly expanding cash flows. A shortfall in sales growth of a few percentage points can easily spell financial disaster to an over-extended business, as it did last year to the huge Kookje Group.

The government too is caught on a high-growth treadmill, for it has set itself some exceedingly ambitious targets.

Government planners consider growth of 6 to 6.5 per cent a

year to be the absolute minimum acceptable.

They are also committed to preventing any significant acceleration of inflation beyond last year's 2.3 per cent level. Inflation, it is said, is a particular phobia for President Chun, who is convinced that it was at the root of the social unrest which led to Park Chung Hee's assassination.

The balance of payments is the third crucial target of government policy. The current account deficit hit a peak of \$6.3bn in 1980 and had been slashed to \$1.4bn by last year. This year it is forecast at \$1bn, compared with a projection of \$0.6bn published by the Economic Planning Board late last year. The EPB's hopes of a \$0.4bn current account surplus by 1986 now look completely unrealistic.

But the current account cannot be allowed to stray too far off target, for in the background there is always the shadow of the country's huge foreign debt. Estimated at \$43.1bn at the end of last year, the debt is bigger than Brazil's, in relation to population or GNP, although it is much smaller in relation to exports: Korea's ratio of debt service to exports is 19 per cent, against Brazil's 92 per cent.

To reconcile the three macro-economic objectives of growth, price stability and balance of payments improvement, the government will have to use every policy instrument at its disposal—including some which

may conflict with the micro-economic goals of long-term industrial restructuring and economic liberalisation.

The normal instruments of macroeconomic policy are unlikely to suffice because they create conflicts among the government's basic targets.

Tight monetary policy suppresses inflation, but also endangers growth. Devaluation of the won boosts exports but threatens price stability. Fiscal expansion can stimulate domestic growth if export demand is flagging, but it will tend to suck in imports and widen the current account deficit.

Export

This is why statements by Korean officials for all the general rhetoric about economic liberalisation and non-intervention, are peppered with instances of government involvement in every aspect of economic decision-making.

The trade balance with Japan must be improved by "carrying out import substitution strategies more assiduously" in the capital goods industries, the Bank of Korea reported recently.

The Ministry of Trade is trying to identify 1,000 successful medium-sized firms which will be encouraged to export through preferential access to bank credit, even though officials argue that "there will be no discriminatory interest

rates or tax treatment" in their favour.

Although the Government no longer undertakes explicit industrial targeting, it continues to vet the large conglomerates' activities in certain key industries, including auto production, electronics, shipbuilding and aerospace.

And officials point out proudly that the fiscal boost which is planned for the economy this year, will be carefully targeted to maximise its income on growth and minimise costs to the balance of payments.

In principle, of course, there are some very liberal economic policies which the government could try using instead to help reconcile its diverse objectives. Deregulation financial markets, for instance, should help increase the savings ratio and hence improve the balance of payments. Opening the stock market to foreign portfolio investment, as well as improving financial structures of Korean companies and thus promoting industrial growth and capital spending.

But such initiatives are also fraught with danger. In an uncertain world, Korean officials are not inclined to take too many chances. When painted into a corner, familiar methods which served well enough in the past are a tempting alternative to radical and risky new ideas.

Key economic indicators

	GROWTH RATES (%)				
	1969-70	1970-82	1983	1984	1985
Real GNP	8.6	8.6	9.5	7.6	6.8
Export volume	24.7	20.2	12.8	15.6	9.9
Manufacturing output	17.6	14.5	10.9	14.6	14.7
Population	2.6	2.3	1.6	1.3	1.5
Consumer prices	12.2*	15.9	3.4	2.3	2.3
Wages	20.7	24.6	12.2	8.1	6.1
Real wages	12.0*	8.7	8.8	5.8	2.1
Productivity	—	10.3	12.5	8.8	—

END OF PERIOD					
GNP per capita (\$)	248	1,800	1,884	1,998	2,135
Annual wages (\$)	542	4,832	4,224	4,428	—
Current account (\$bn)	-0.6	-2.3	-1.6	-1.4	-1
External debt (\$bn)	2.2	27.2	40.4	43.1	45
Debt service ratio	19†	21†	19†	19†	18†
Exports (% of GNP)	15	36	37	38	—
Manufactures (% of GNP)	21	28	28	29	30

* 1965-70. † Wharton Econometrics.
Sources: Bank of Korea; Korea Development Institute; Wharton Econometrics

Far from the ideal free market model

Economic planning
ANATOLE KALETSKY

FOR NEARLY two decades, the history of South Korea's economic miracle has been continuously rewritten to suit the fluctuating intellectual fashions in the U.S. and Europe. A recent World Bank paper describes it as "a process of selective enhancement and judicious editing."

Economists downplay what another World Bank report in 1983 called the "strong partnership between government and the private sector, which is perhaps the most striking similarity between the systems of management in Korea and Japan."

Instead they say government spending absorbs a lower proportion of GNP in both Korea and Japan (about 19 per cent) than in almost any other country.

They say Korea has oriented its economy towards exports. Instead of protecting inefficient domestic industries, Korea's businessmen are praised for responding rapidly and flexibly to the discipline of competitive market forces.

And Korean labour is lauded for its industry, lack of militancy and willingness to accept low wages.

All these generalisations are valid, yet each disguises as much as it reveals about the Korean miracle.

The government officials who work for the Economic Planning Board may no longer be regarded as heroes of the Korean miracle, but the EPB remains the single most important organ of government. It is represented in the cabinet by a deputy prime minister and has a direct input into all decision-making by other ministries.

Although most EPB officials support moves towards financial liberalisation and the decentralisation of economic decision-making, they make few apologies for the EPB's interventionist past.

The first three five-year plans (from 1962 to 1976) succeeded in attaining or beating their main targets and are accepted in Korea as the foundations for economic success. It was only as the fourth five-year plan ran into the ground in 1979-80 against the background of the second oil crisis, rising inflation and political unrest connected with President Park Chung Hee's assassination, that many EPB officials became disillusioned.

Even after the "liberal" faction within the EPB won wholehearted backing for more market-oriented policies from President Chun Dae-hwan, Korean economic planners in the 1983 revision of the current (fifth) five-year plan is a far cry from what is understood by laissez-faire economists in Europe and the U.S. to say nothing of countries like Chile.

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chaebols, controlling all of the "commanding heights" of the economy. Nine of the chaebols account for more than half of Korea's exports. Within the chaebols, cross-subsidisation is rife between profitable divisions and those which make losses.

"Korean managers" don't give much emphasis to profits; they want to be number one in size, not number one in profits," said Mr. Koo Suk Mo, chief economist of the Federation of Korean Industry, with apparent approval.

The Government believes this economic stance to be dangerous and unhealthy as Korea's economy becomes more complex. To force the chaebols to contract it has imposed "detailed and onerous lending procedures" on the "liberalised" financial system, designed to favour small businesses. "It is also not averse to restricting the chaebols directly on which industries they should enter and which they will have to abandon."

Profits

In any case, the dominance of the chaebols is such that it will be many years before any of the "key economic sectors" have much resemblance to a textbook competitive market model.

Even Korea's labour market is a far cry from a textbook competitive model. There may be no disputing the industriousness of Korean workers, and even in a political environment most businessmen believe that trade union militancy would not be a serious problem.

I've met people here who worked 60 hours a week for three months without taking any wages, because their company was in trouble," says an incredulous British banker.

But profits have persistently modest by international standards. Operating profits have averaged 10.1 per cent of total assets employed in Korean manufacturing between 1974 and 1983, and net profits after financial expenses have averaged 3.1 per cent of assets.

Wages, on the other hand, have grown by 7.5 per cent a year in real terms since 1971, slightly higher than the rate of productivity.

More importantly, Korea has had an exceptionally equal distribution of income ever since the land reform of 1946 broke up large private landholdings. In 1983, average salaries for administrators and managers were only 2.5 per cent higher than average wage and salaries in the whole economy.

During the mid-1970s this measure of income inequality had briefly widened to a ratio of 3.4, and it is one of President Chun's proudest boasts that he had narrowed the income distribution back to its structure of the late 1960s.

This has been achieved through a combination of egalitarian traditions, moral "persuasion" from the government and, most importantly, "the good fortune that our society was completely levelled after the war," a senior economic planner says.

But dangers may lie ahead now that the first generation of the Korean miracle is giving way to the second," he says.

Decisions are made to introduce inheritance taxes like they have in Japan, we will eventually have the same distribution problems as America and Europe."

Therein lies the clear lesson which can be drawn from all the successful Far Eastern economies. Somehow their economic miracles were never hijacked by the vested interests and small political elites which are so familiar in countries like Brazil, Mexico and the Philippines, to say nothing of black Africa.

In Korea, Taiwan and Japan there were no monopolies over land, natural resources or ever education to create vested interests before the economic takeoff started.

As Mrs. Anne Krueger, the World Bank's chief economist and a leading scholar on Korea points out: "The lucky countries are the ones with no resources."

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Bold opposition demands change

Politics

RICHARD COWPER

A WHIRLWIND SERIES of developments culminating in what many have interpreted as a stunning electoral success in February for the country's newly-formed opposition party has brought about a remarkable transformation of the South Korean political scene.

Mr. Chun Doo Hwan, who has three more years to run as president, still retains firm control over the levers of power under a constitution which prevents a full measure of democracy. But for the first time since he seized power in a 1978 military coup President Chun has allowed a significant relaxation of the heavy hand of autocracy.

A bold and sizeable opposition, fundamentally opposed to military rule and the constitution, has been allowed to win a place in the National Assembly because of the most free and fair elections in South Korea for almost 15 years.

The coming months may prove vital in deciding whether President Chun's unexpected "liberalisation" experiment is destined for success or failure. Neither the Government nor the

military expected such a strong showing from the opposition, nor that so many of the population should have made it so clear the regime and political programme was unpopular.

The traditional forces of authority, notably a small but influential group of hardline military and ex-military officers, appear increasingly alarmed at what they see as a president losing his grip. They seem to be regrouping for battle with an opposition in no mood to go back on its call for a revision of the constitution and a clear-cut programme for democracy.

Demonstrate

Many hope a showdown can be avoided. In a country ruled by military strongmen since 1961, few doubt the winner would be the military. Most Koreans would probably like to see President Chun and the opposition agree to a compromise which would neutralise the hardline elements on both sides and allow the experiment with democracy to continue.

By Korean standards, the country has moved a comparatively long way in a very short space of time. Until about a year ago, President Chun ruled the country with an iron grip. The National Assembly was a rubber stamp, opposition figures were banned and Kim Dae Jung, the most famous opposition leader, was banished to the U.S.

The Press was strictly controlled, the trade unions suppressed and riot police patrolled the universities.

But in 1984 the President launched a gradual programme of "liberalisation." It was at overcoming his poor image abroad on human rights and securing international recognition for moderation in the 1985 National Assembly election. This was an important mid-term test of the success and popularity of his seven-year presidency.

Amongst the measures implemented in 1984 were:

- The ban on all but 14 of 361 opposition politicians was lifted.
- Riot police were withdrawn from university campuses and students allowed to demonstrate on campus.
- Stringent Press controls were relaxed to allow constrained reporting of strikes, demonstrations and opposition attacks on the Government.
- The formation was allowed of an independent opposition party — the New Korea Democratic Party.
- A decision to hold a relatively free election.

President Chun had not changed from autocrat to democrat overnight. But he seems to have felt that his diplomatic achievements abroad, successful containment of the threat from the North and a booming econ-

omy at home all offered an attractive backdrop to secure public approval of his regime. He may also have felt that the time was ripe to encourage a more mature political system in a country which has never experienced a peaceful transfer of power.

But as the election approached things seemed to go badly wrong. What had started as a cautious experiment in liberalisation took on a life of its own. Students demonstrated in record numbers and tear gas was a daily fact of life on the streets of Seoul.

The North Korea Democratic Party formed by Korea's two most famous opposition politicians — Kim Young Sam and Kim Dae Jung — united those opposed to President Chun.

Six days before the election the almost unthinkable happened when Kim Dae Jung, President Chun's almost implacable opponent, was allowed to return home, though without his full rights being restored.

To the surprise of a nation unused to much freedom, the NKDP condemned the government as authoritarian and lacking legitimacy. It offered no alternatives in foreign or economic policy but the opposition's demand for revision of the constitution and quick restoration of democracy struck a responsive chord.

The NKDP swept to victory in most cities, winning almost 30

per cent of the vote against 35 per cent for the Government's Democratic Justice Party.

A complicated constitutional measure giving the party receiving the highest vote a large bonus of seats meant the DJP had a clear majority in the National Assembly. The outcome, however, was widely interpreted as a major victory for the NKDP, a rebuke for President Chun and a call for more democratic government.

It shocked the military, the government and President Chun, who quickly reshuffled his cabinet and appointed Roh Tae Woo, a hardline retired general and friend to head the DJP. Roh Tae Woo is being seen as a potential successor to President Chun.

These moves failed to stop the mood for change. In the last few months more than three-quarters of the assemblymen from the Democratic Korea Party, which won 20 per cent of the vote in the election, have defected to the NKDP. With other desertions the NKDP now represents about 50 per cent of the electorate.

The opposition is calling for President Chun to resign before his term expires in early 1988, and demanding a direct electoral vote for the presidency. The constitution provides for a single term of seven years for a president to be appointed through a 5,000-strong electoral



Police struggle with an opposition supporter in a demonstration at the return from exile of Kim Dae Jung

collegio. The opposition claims that the system can be manipulated by the government.

The NKDP is also demanding speedy release of more than 100 political prisoners, and a pardon for Kim Dae Jung, who still theoretically faces a sentence of 17 years in prison for sedition.

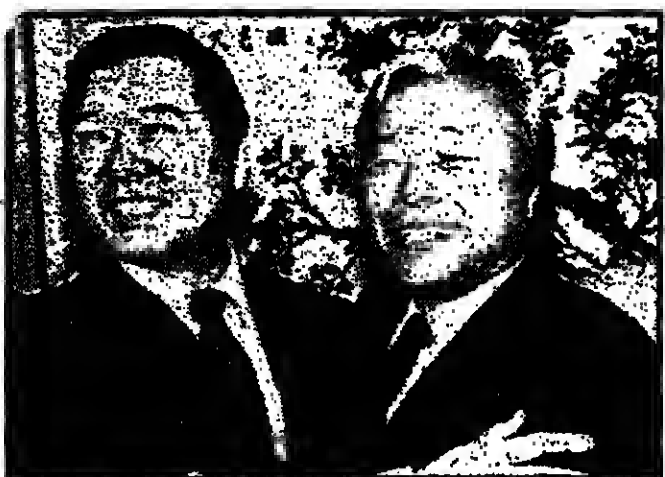
The Government feels it has gone far enough and is digging in. Opposition demands have been rejected and President Chun, who has promised to

step down in 1988 to ensure a peaceful transition of power, said he would "neither lengthen nor shorten his term by one day." He also ruled out any change of the constitution before 1988.

Some opposition members have warned privately that if the Government refuses to budge there may, in the words of Kim Young Sam, be a "big uprising." This may provoke a confrontation with the military, which would be tempted to take

over again. The hope is for an acceptable compromise, possibly ensuring a peaceful transition of power in 1988 to a retired military officer with a more civilian outlook who would create a more democratic government.

South Korea might yet be able to break out of the remorseless cycle of liberalisation, confrontation and crackdown that for 38 years has bedevilled attempts to develop a more mature political system.



Dissident leaders Kim Dae Jung (left) and Kim Young Sam meet for the first time in five years after a ban on political activity was lifted

PROFILE: KIM DAE JUNG

Doubts shadow rebel leader

FOR SOME he is a hero, defender of the poor and oppressed; the liberal conscience of Korea back from the wilderness, and destined to lead his country along the path of true democracy after more than two decades of unbecoming military autocracy. Others believe he is a dangerous, radical, guilty of attempting to overthrow the government; a demagogue, and potential martyr who will stop at nothing to become the next leader of South Korea.

Kim Dae Jung is hated by the military and loved by students and followers, particularly from his own south Cholla province. Such are the conflicting views and emotions aroused by Korea's most well-known opposition politician that it is not easy to uncover the real man behind his public masks.

Kim comes over as an ambitious, brave, long-suffering liberal democrat who believes the time is ripe for the military to hand over to a democratically-elected civilian government. The success of the opposition in February's general election "clearly showed that the people are totally dissatisfied with the military dictatorship," he says.

If President Chun does not pave the way for a true restoration of democracy then Korean society would become polarised, "there will be a serious clash between our young people and the military, and Korean democrats will lose our base for ever."

Kim Dae Jung believes that the U.S., as a key player and an important ally, has a duty to use its power and influence to secure a restoration of democracy.

"They were quick to back Chun after he seized power. But such a policy is fraught with danger," he says. "In the interests of security, the U.S. has supported military regimes everywhere — in Cuba, in Vietnam — and everywhere they have lost. If the State Department wants to avoid a repeat of the Philippines, now is the time to act."

President Chun should move quickly to release remaining political prisoners, restore civil rights and amend the constitution to allow a direct election of the presi-

dent in 1988, he says. If elected, Kim Dae Jung would grant a real measure of autonomy to local government, guarantee the rights of unions, and adopt a free market economic policy which distributed the fruits of development more equitably and ensured a social justice for all.

He would make a concerted effort to open a dialogue with North Korea, seek a greater improvement in relations with Moscow and Peking and instigate closer co-operation with the Third World.

When the situation was ripe, he could seek a gradual build-down of U.S. troops in Korea," he says. These hardly seem the ideas of a dangerous left-wing radical. But in a country where communism is regarded as an unspeakable evil and where right-wing authoritarianism has been the norm in government for so long, it is hardly surprising that they instil fear into the hearts of the establishment.

Outside his solid group of supporters, many would-be democrats find it difficult not to express admiration for Kim. He nearly won the 1971 election; he has been kidnapped by Korean intelligence; was in and out of prison for 14 years; sentenced to death; banished abroad and is still fighting.

But they fear he may not be the best man to lead South Korea safely on to the difficult road of democracy.

An American-educated professor says: "He is essentially an opposition politician who thrives on conflict in a society where that is unacceptable. After all his experience, he does not seem to be capable of compromise. 'I have serious doubts whether he can secure a stable transition to democracy, making the country behind him.'"

If the military remained neutral, if there was a free and fair election in 1988, and if the opposition united behind him, Kim Dae Jung might just come out on top. But there are just too many ifs. Few analysts seem to dispute the view that the charismatic Kim has little or no chance of becoming South Korea's president.

In the words of a former U.S. ambassador to Korea: "The military and the government practically hate him, the business distrusts him, the U.S. is uncomfortable with him and the opposition is hardly united behind him. Against a line-up like that you can draw your own conclusions."

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South Korea 4

Export boom unlikely to lose steam

Trade

RICHARD COWPER

SOUTH KOREAN exporters and economic planners like to portray themselves as being buffeted by a rising tide of protectionism in key markets, and by a growing wave of new low-cost producers.

This vision of an embattled export economy struggling successfully to increase headway on the stormy seas of international trade is not inaccurate. In textiles, the country's top export (accounting for 23 per cent of 1984 exports of \$29.3bn), China is beginning to pose a challenge in traditional markets.

Last year more than a dozen anti-dumping charges and duty actions were taken against Korean exporters in the U.S., the most notable in steel and TV. Seoul eventually agreed to limit shipments of finished steel to 1.9 per cent of the U.S. market, while three Korean TV manufacturers were forced to pay an average of 12 per cent in penalty duties on exports they had made.

The Ministry of Trade says there are "unfair trade practice cases" still pending on oil rigs, footwear, photographic albums and pianos.

In Japan, Korea claims it faces tariff duties of double the average rate on products where it feels it has a clear comparative advantage—something unlikely to be changed because of Tokyo's efforts to comply with U.S. demands for a more open market.

*Protectionism has become

the major problem for our economy, and it is an evil which is growing. In 1984 some 37 per cent of our exports were subject to some form of protectionist measure. This year we estimate it will increase to about 41 per cent," says Mr Kim Chul-su, assistant Minister for Trade and Industry.

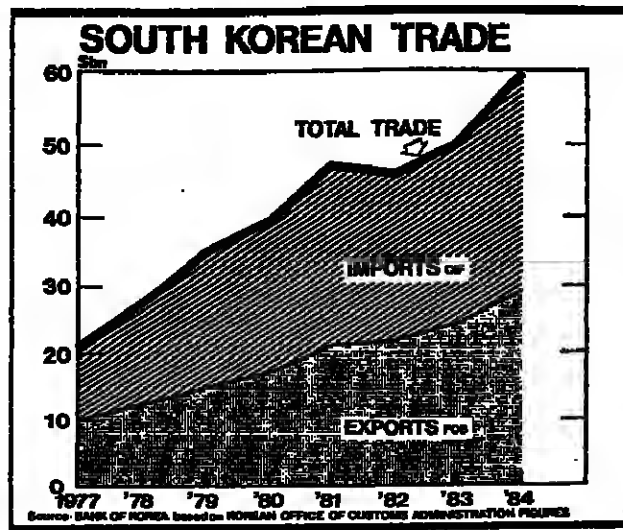
If the past is any guide, however, there is little evidence that either protectionism or competition from new low-cost producers will stop the South Korean export juggernaut.

Ever since President Park Chung Hee took the flagging Korean economy by the scruff of its neck in the mid-1960s, the motto of the country's business leaders and economic planners has been "export or die". With a comparatively small domestic market, Korea adopted a strategy of borrowing abroad to finance its industrial growth and then proceeded to export to a grinding halt. Most Korean economists disagree. A major recession is not in sight and they point out that energy-dependent South Korea survived two oil shocks and the worst recession for 45 years and still came out flying.

Last year, for example, exports grew 20 per cent to \$29.3bn at a time when world trade grew by 10 per cent. This year Korea's Ministry of Trade is forecasting further growth of about 13 per cent to \$33bn.

Starting with textiles, plywood and footwear in the 1960s and then shifting to chemicals, shipbuilding, machinery and steel in the late 1970s, Korean exports have expanded by more than 30 per cent a year on average since 1963. This has catapulted Korea from a poor developing country to one with upper middle-income status in just over two decades.

Such an export-led strategy is not without risks. The country has one of the highest foreign debts in the world. Its dependence on exports for economic growth (last year two-way trade of \$53.6bn accounted for 66 per cent of GNP) makes it particularly vulnerable to changing external circum-



stances. Pessimists say a combination of misguided new investments, renewed recession in the West, strong competition from new entrants and a further rapid increase in protectionism could bring the Korean export engine to a grinding halt. Most Korean economists disagree. A major recession is not in sight and they point out that energy-dependent South Korea survived two oil shocks and the worst recession for 45 years and still came out flying.

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Electronics

Some believe that a poor performance in the first quarter when exports were down 8 per cent to \$5.8bn over the same period in 1984, means that this target is unattainable. But a complex mix of statistical reasons and special circumstances seems to indicate that the figures may have been unrepresentative.

Steel, textiles, footwear and ship exports have already picked up and according to the Trade Ministry are now exceeding last year's levels. Relatively new export products, notably cars and video cassette recor-

ders are also coming on the market for the first time in larger numbers.

Barring unforeseen circumstances, few believe that Korea's export drive is likely to veer far off course in 1985.

Two new strategic export industries in the making are electronics, and automobiles and parts. Last year electronics was the country's star performer with record export sales of \$3.2bn—up 22 per cent on 1983. Analysts say exports may touch \$4bn this year.

At the bottom end of the world TV market, Korea is already a force to be reckoned with. Now it may be set to repeat its success with VCRs, and in the not too distant future with personal computers and microchips," says one economist.

Last year—much to its surprise—Korea exported 52,000 cars, half to Canada. This year it hopes to sell up to 100,000 and by the end of the decade it plans to be producing 1.5m cars a year, of which 600,000 would be sold abroad. In spite of links with Mitsubishi and General Motors, many believe this may be considerably over-

ambitious.

Some analysts fear that Korean exporters may get their fingers badly burnt because of a tendency to rush headlong into markets without sufficient product expertise or solid judgment as to what the market will bear. Critics point to Korea's high-cost investment programmes in cars, microchips and to a lesser extent shipbuilding.

The Government admits that Korean exporters are often short on marketing, but argues that protectionism and the reluctance of industrialised countries to part with high technology are the main causes of the slower rate of return in such industries.

Korea has responded to protectionism in the U.S. and Japan by attempting to diversify markets and by import liberalisation. With the exception of construction exports to the Middle East—a still large but rapidly declining market—diversification has met with limited success. Japan and the U.S. still account for about half two-way Korean trade.

Nor is it clear how far South Korea is prepared to go in liberalisation. The Government claims that some 83 per cent of internationally classified import items are given automatic import approval. But on a weighted import value basis, it is clearly a much lower figure.

Interaction with two dominant neighbour states is changing

Symbiotic relationship in danger

Japan

ANATOLE KALETSKY

IN SPITE of the personal animosities bred by 50 years of sometimes brutal Japanese occupation, most Koreans acknowledge that Japan has provided both inspiration and material support for their country's modernisation. In many ways Korea has followed Japan's corporatist model of industrial development in its own economic planning and it has benefited enormously from flows of trade, investment, and technology across the Sea of Japan. Japan too has profited from this economic interaction, ever since the Korean War gave the first big external boost to Japan's engineering, textile and food industries.

This symbiotic relationship has now run into danger. Today, resentment about Japan's ever-growing trade surpluses, its technological dominance, and its protectionist practices, is every bit as fierce in Seoul as it is in Washington or Detroit. If the strains continue to worsen, they could eventually lead to significant changes in Korea's trading patterns, as its insatiable requirements for foreign technology and capital equipment shift from Japanese manufacturers towards the American and European rivals.

Boomerang

Korea's complaints about Japan are twofold. First, its bilateral trade deficit with Japan is now so enormous, at \$3.1bn in 1984, that it threatens Korea's ability to service its international debts and contributes indirectly to protectionist frictions with the U.S. and other trading partners.

Secondly, there is Japan's denial of advanced technology to Korean manufacturers, allegedly for fear of the so-called "boomerang effect"—the possibility that low-cost Korean competition will undercut Japanese dominance of certain high-technology markets. Japan's preoccupation with "boomerang effect" is cited again and again by Korean businessmen as a growing impediment to co-operation between the two countries.

Because the Japanese relationship has been so crucial to Korea's economic development, any serious measures to redress these grievances could mean big upheavals for Korean manufacturers and their trading partners all over the world.

Between 1972 and 1983, Japanese companies provided Korea with 52 per cent of its direct investment, 55 per cent of its inward technology transfers and from 37 to 50 per cent of its capital goods imports.

For many years this extraordinary dependence on Japan worked to Korea's favour. Korea benefited both from the quality of Japan's equipment and from the marketing acumen and outstanding production manage-

ment which came with Japanese direct investment and joint ventures.

The big bilateral trade deficits which resulted from the imports of Japanese capital goods seemed an acceptable price to pay for these benefits during most of the 1960s and 1970s. But in 1982 the Third World debt crisis suddenly undercut Korea's ability to finance its trade deficits through foreign borrowing. In the frantic effort to narrow deficits, Japan became a natural scapegoat—natural because 83 per cent of Korea's total worldwide trade deficit of \$51.9bn between 1976 and 1983 could be attributed to the \$43.1bn bilateral deficit with Japan.

In 1984, while trade with nearly every other country moved in Korea's favour, the trade deficit with Japan widened by another 10 per cent to \$3.1bn, so that Japan now accounts for much more than the whole of Korea's worldwide trade imbalance.

In fact, Korean officials point out that a reduction by just one third in the Korean-Japanese trade gap would be sufficient to bring Korea's total international trade into complete balance. Even more significantly, they note that the trade deficit of \$3.1bn with Japan closely matches Korea's \$3.2bn surplus with the U.S., which is generating increasing resentment in Washington.

The "chronic trade deficit concentrated in just one country has created a deep imbalance in our trade with other export markets, especially America," says Mr Park On-Sah, Director General for International Trade. If Japan were to buy more Korean goods, Korea could afford to import

more from America and relax its export drive to the U.S. market. That, in turn, might help to dissipate the protectionist forces in Washington which are seen as the biggest single threat to Korea's economic future.

Thus cutting the deficit with Japan has become a top priority for Korean economic management and diplomacy. So far, Korean officials are disappointed with the progress.

Voluntary

Korea's exports to Japan are skewed towards fishing and agricultural commodities and light industrial products, such as textiles and footwear, which are protected by unusually high tariffs. This means that Korean exporters face a tariff rate double the Japanese average, and considerably higher than in Europe and America. Furthermore, Japan regards as "sensitive" numerous products in which Korea's comparative advantage is particularly strong, so that about half of Korea's exports to Japan are subject to direct or indirect quantitative controls.

Korea has submitted a list of 22 items, ranging from silk and ginseng products to footwear and cement, requesting the removal of non-tariff barriers, but there has been little headway so far.

Mr Park gives an exasperating, but characteristic, example. When Korean cement manufacturers started exporting to Japan in November last year, Japanese officials arrived in Seoul within days of the first shipment landing. They demanded a voluntary self-restraint agreement. Korea's initial shipment had amounted to no more than 0.3 per cent of Japan's consumption, but when

the Korean industry reflected "voluntary" restraint, all orders from Japanese wholesalers were abruptly and mysteriously cancelled.

The lesson which many Koreans are drawing from such experiences is that their industry will have to lower drastically its dependence on Japanese capital goods, if it is to be made into the \$3bn trade deficit with Japan.

In theory this could create big opportunities for equipment manufacturers in America and Europe, since heavy industrial products account for 80 per cent of Korea's imports from Japan. Japan's refusal to supply advanced machinery for fear of the "boomerang effect" should further enhance these opportunities for other nations.

In practice, however, Japan's inherent advantages in the Korean market remain formidable. The cultural and linguistic affinities between the countries and their geographical proximity seem by far to outweigh the historic animosity between the two nations. Japan's network of direct investments and joint ventures creates captive markets for Japanese products. Also mentioned with extraordinary regularity by Korean businessmen there is the "fantastic after-sales service" offered by Japanese capital goods manufacturers.

Such factors can all too easily overwhelm "the government's efforts to encourage diversification of import sources," according to Mr Park. "We know that by importing from America and Europe we could reduce our chronic trade deficits and get to the real origins of technology—but our businessmen still want to buy Japanese."

Strategic changes lead to greater contact

China

RICHARD COWPER

LAST MONTH Seoul sent two diplomats to attend a United Nations seminar in Peking. It was the first time that a foreign official had been to mainland China since the communist takeover in 1949.

The dispatch of the diplomats came a few weeks after Seoul and Peking resolved a long-standing maritime incident over a Chinese torpedo boat which drifted into South Korean waters following a mutiny in which six sailors were killed.

A few years ago Seoul would have been reluctant to make propaganda out of the incident, and may have encouraged potential defectors by offering them a free ticket to Taiwan. But in spite of reports that the boat and its crew were turned over to the Chinese in international waters.

Many view the handling of the incident as further evidence that Seoul would be ready to dump Taiwan, its old friend and long-time diplomatic partner, in favour of China. No-one believes, however, that these recent moves herald a breakthrough to a quick resumption of diplomatic relations.

The overwhelming stumbling block is China's reluctance to make any move which might push North Korea into the arms of the Soviet Union, and few doubt that normalising relations with Seoul would do that.

Nevertheless, given three decades of undisputed and unmitigated hostility between China and South Korea following Peking's military support for Pyongyang in the Korean war, the growing warmth of the relationship over the last two years has been heady.

Legitimacy

Since May 1983, when the hijacking of a Chinese airliner led to negotiations between Seoul and Peking officials, there have been a growing number of contacts between sportsmen, officials and businessmen.

Han Woo Suk, South Korea's assistant Minister for foreign affairs, cites four main reasons for Seoul's change of heart:

- The desire to encourage Peking to use its influence to prevent North Korea engaging in adventurist military activity;
- South Korea's drive for wider international recognition and legitimacy;
- The desire to persuade a major power to attend the Seoul Asian and Olympic games;
- The hope that China's geographical proximity and size will make it a major trading partner.

For its part, China seems keen to promote a reduction in tension on the peninsula to allow it to carry on undisturbed with its four modernisations. Peking also may see South Korea as an important source of intermediate goods and technology as well as an ideal foil to help prevent overdependence on Japan.

Above all, the growing proximity of interest between the U.S. and China has changed the

strategic picture in North-east Asia to the point where the 40,000 or so U.S. troops in South Korea are no longer seen as a threat by Peking, but more as a guarantee of regional stability. The issue of U.S. troops on South Korean soil therefore no longer a possible point of contention between Seoul and Peking.

It looks increasingly likely that China will attend both the Asian and the Olympic games. But perhaps the most significant and least reported consequence of the improvement in relations between the two has been a phenomenal growth in trade. Accurate statistics are hard to come by but according to diplomats, two-way trade between China and South Korea is more than double last year from about \$285m in 1983 to more than \$600m. This year, they expect it to grow to about \$850m. Some estimates put two-way trade for 1984 as high as \$900m.

The largest proportion is in direct, most of it going through Hong Kong, Tokyo and Singapore. Hong Kong government statistics show transit trade through the colony grew from \$160m in 1983 to \$345m last year. Other estimates put it as high as \$600m.

According to official statistics Chinese exports through Hong Kong totalled \$185m, of which \$107m were raw materials and chemicals and \$63m were textile yarn and fabrics. Chinese imports through the colony totalled \$160m of which \$89m were yarns and fabrics and \$85m were TVs and electrical machinery.

There is also understood to

have been a small amount of direct trade between the two countries since 1983, mostly of Chinese coal, oil and soyas. One diplomat says: "Neither South Korea nor China wants to broadcast it, but from last year South Korea has been a problem. Chinese ships made calls in Korea and vice versa."

Of equal note has been the number of visits to China by South Korean businessmen over the past year, including that of Mr Kim Choo-Wong, chairman of Daewoo, one of Korea's largest and fastest growing conglomerates. There is now growing expectation that a South Korean company may be close to making a direct investment in China, possibly in construction.

Three years ago, trade and business contacts on such a scale would have been unthinkable, but where all this will lead is uncertain. Seoul and Peking are interested in expanding their political and economic ties, but China has to tread carefully. If its flirtation with Seoul looks as if it is going to push North Korea into the arms of the Soviet Union, it will be quick to sacrifice its new ally with the South.

One U.S. diplomat says: "I see no immediate opportunity for opening diplomatic relations. The relationship between Peking and Seoul is cordial and expanding, but it remains unofficial—almost covert."

Both sides accept that a breakthrough is likely to come only after a substantial improvement in relations between North and South Korea. For the moment, that looks a long way off.

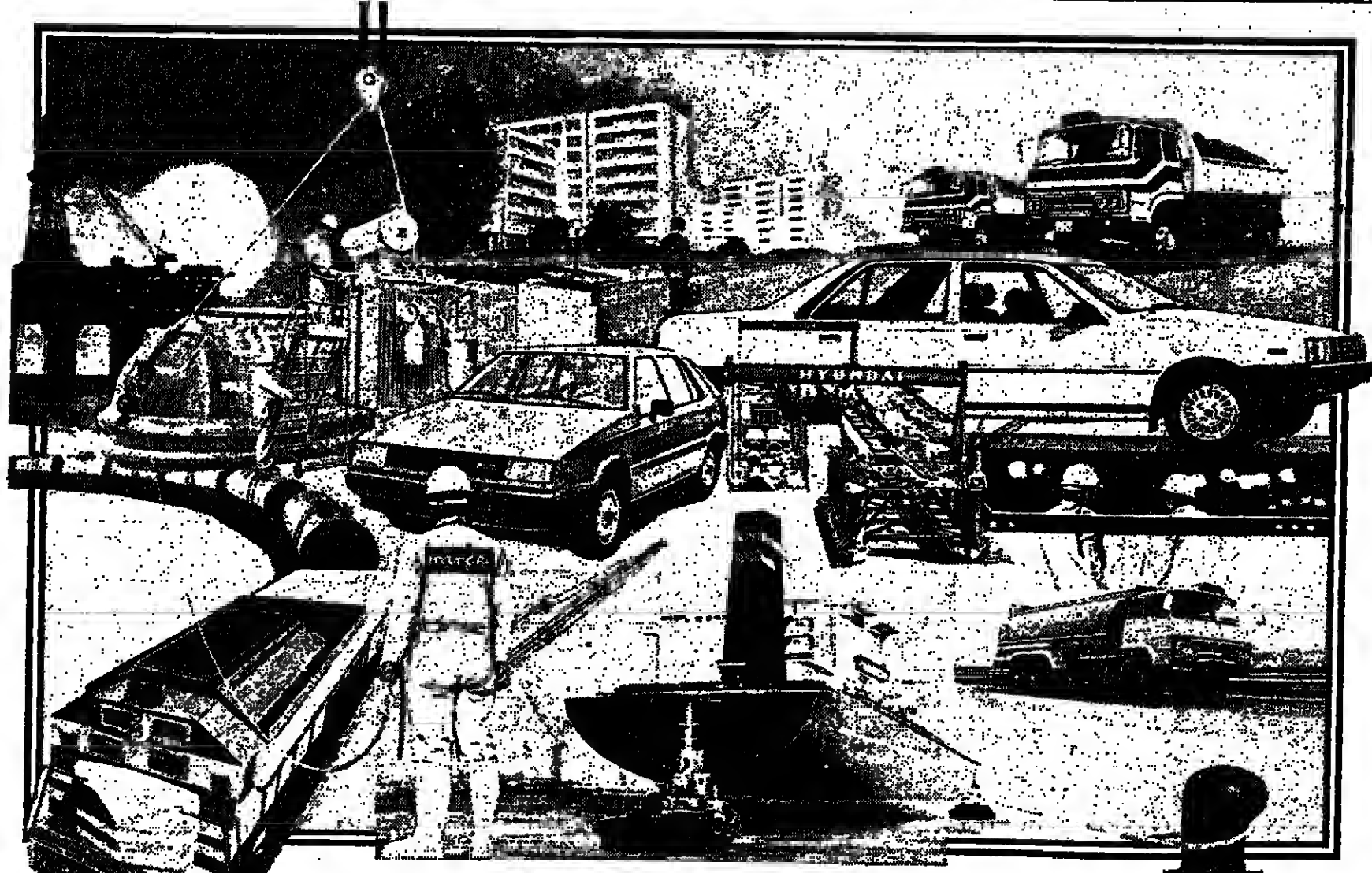
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South Korea 5

Edging across great divide

North-South
RICHARD COWPER

THIRTY-TWO years after a ceasefire ended one of the bloodiest military struggles since World War Two—at least 3m were killed or maimed in three years—North and South Korea are still technically at war.

Over the last year or so, however, there have been signs of a thaw in relations between Pyongyang and Seoul. A few hope that the sides may be finally edging towards some kind of compromise which would lead to a settlement.

At first glance it is difficult to perceive any improvement. Two of the world's largest standing armies totalling more than 1.4m still face each other across a 151-mile border that bristles with gun emplacements, missiles, tanks, minefields and electric fences.

Some 40,000 U.S. troops are in the South, and with Peking, Vladivostok and Tokyo just 500 miles or so away, the inaptly named demilitarised zone that splits the Korean peninsula at the 38th parallel remains one of the world's most dangerous flashpoints.

In spite of a common language and more than 1,000 years of history as a united nation, the heavily fortified border between North and South Korea represents a social, political and ideological divide so deep that the two main combatants are still nowhere near signing a formal peace treaty, and officially do not recognise each other's existence.

In the last decade, both sides have more than doubled their aircraft, tanks, artillery and naval vessels and continued to expand the strength of their armed forces. To the north, Kim Il Sung, the communist world's longest serving ruler and the man responsible for starting the Korean war, runs a xenophobic marxist regime that is still not recognised by most industrialised nations.

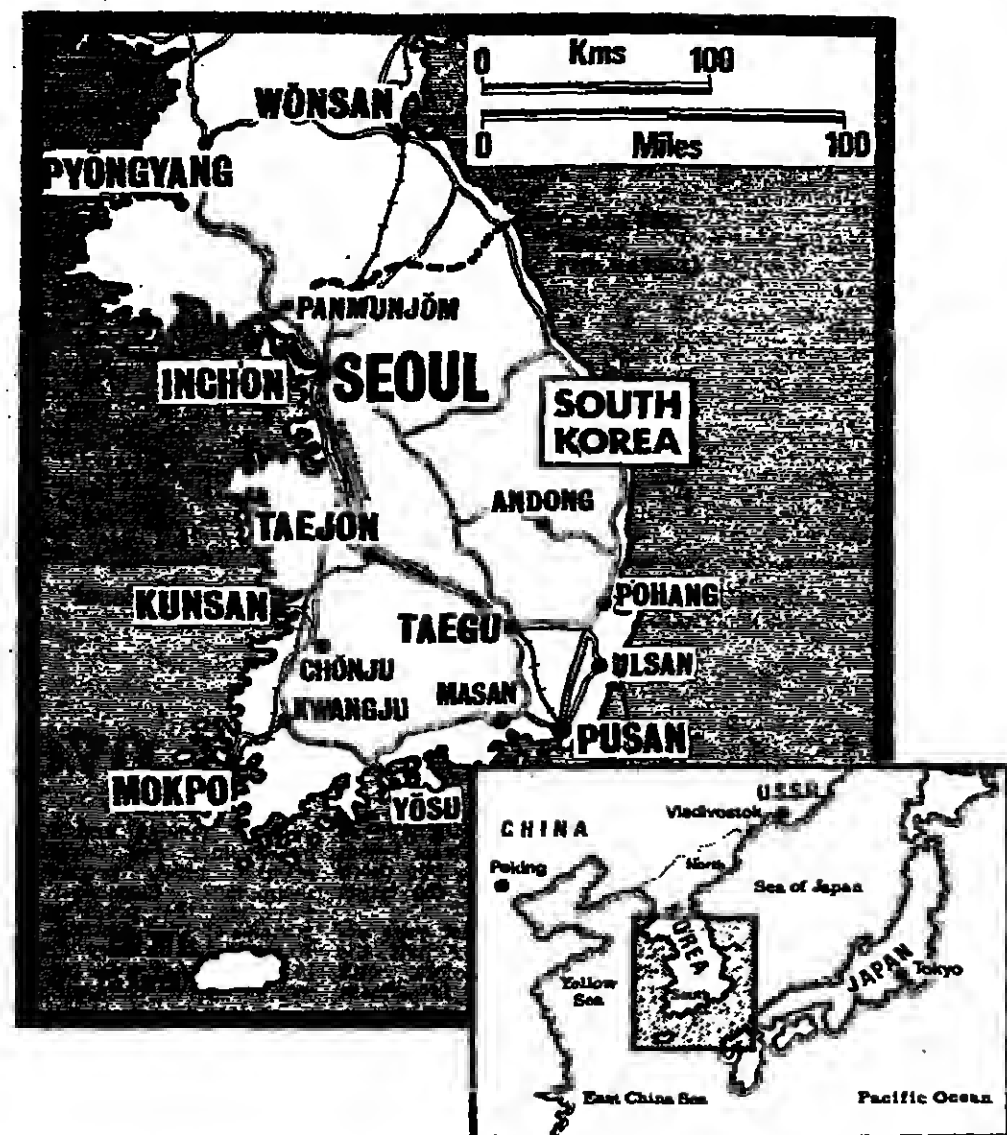
In the South, President Chun and the military, backed by the U.S., preside over a fast-growing economy that has become one of the darlings of the capitalist world.

Against this background, almost everyone expects a surprise last September when some 700 North Korean military trucks rolled across the border to deliver relief aid to the south following a flood disaster.

It may be the most significant development since the signing of the armistice in 1953, says Brig Brian Burditt, a British officer who has spent several years in Korea attending irregular and mostly futile Armistice Commission meetings at Panmunjom, the only neutral spot on the DMZ where officers can meet to discuss border violations.

It may have been meant initially as another play in a long-running propaganda war. But the offer, acceptance and dispatch of North Korean rice, cement and medical supplies seemed momentarily to have broken through years of hatred, distrust and division that often verges on paranoia.

The flood relief was followed in November by the first talks on economic co-operation, and a resumption of Red Cross talks.



on family unification after 13 years.

Neither meeting produced concrete results, but at least the two sides had started talking. After a number of false starts, Seoul and Pyongyang are set to resume meetings this month.

Diplomats, government officials and intelligence specialists are divided as to why the talks have taken place, and are even less sure where they might lead. They are particularly uncertain about the motives of Kim Il Sung — whose driving force over the last 40 years has been to achieve a unification of the peninsula under his rule.

Most analysts agree, however, that:

● The South is probably keen to reach a compromise with the North to safeguard its security when its drive for international legitimacy and acceptance as a middle-ranking power is beginning to pay off. It also wants to ensure safety for the Asian and Olympic Games; to give itself time to overtake the North in modern military equipment; and to turn China into a major trading partner.

● The North is worried that the South's economy is surging ahead and is now at least four times as large as that of the North in terms of GNP. In 1970 the two economies were roughly the same size.

● The North is spending about 20 per cent of GNP on defence while the South is spending between 6 per cent and 8 per cent. The North still has military superiority but the gap is closing fast and parity is likely in the next five years or so.

Unless Kim Il Sung was prepared to trade the use of a warm-water port with the Soviet Union for a boost in military supplies there seems little he can do to stop this happening.

Neither China nor the Soviet Union, Pyongyang's two main allies, would be prepared to back the North in any military adventure against the south.

● The changing strategic balance in North-east Asia, U.S. friendship with China, and Peking's concern with modernising its economy, have prompted North Korea to improve its economy and reduce tension on the peninsula by holding talks with the South.

● None of the big powers is interested in unification of the peninsula and such an event is unlikely in the foreseeable future.

● Kim Il Sung's main concern to ensure a smooth handover to his son Kim Jong Il now seems to have secured the blessing of both Peking and Moscow and is perhaps his most important foreign policy objective of the last decade.

After that opinion divides sharply. Pessimists who include most South Koreans and a significant portion of U.S. military intelligence analysts, maintain that a man who started the Korean war, ordered the assassination of President Park in 1968, built tunnels under the DMZ at a time when he made a peace initiative, and most recently ordered North Korean Rangers to assassinate President Chun and a large number of his cabinet, is not one to give up his greatest ambition — to take over the South.

"The North needs to do a lot more to show that it means business," says Han Woo Suk, South Korea's assistant minister for Foreign Affairs. "We still fear that their real intention is to destabilise the South and eventually take over."

The optimists argue that Pyongyang may have seen that it is losing the economic and military battle so vital for securing hegemony over the south, and is now prepared to undertake a sharp change of course by defusing tension through talks and concentrating on improving its economy.

They point to Pyongyang's announcement last year of a joint venture law aimed at attracting foreign trade and investment and expect that in the next year or so the two sides will agree to some form of barter trade, a possible opening of rail links and perhaps agreement on communication between divided families.

The outcome of the forthcoming talks is anyone's guess. Mr Jorgen Holm, ambassador of Denmark, the only EEC country to recognise Pyongyang, says: "In Europe the two Germans have been talking for more than 15 years, and today trains and people move across the ideological divide. An armed clash between them is virtually unthinkable."

"Here that's not so. This has been one of the most dangerous flashpoints in the world, and a real dialogue has yet to begin. But for the first time there are two direct telephone links between North and South, and the sides are talking."

But should the outcome look uncertain, a fair election seems remote. Few believe the military would easily accept someone who is not a retired professional army officer as a successor to President Chun.

Some analysts argue that a number of potentially powerful hardline army officers already feel that President Chun has gone too far in "liberalising" the political climate, raising the electorate's expectations to "unrealistic and potentially dangerous" levels.

"For the moment the army continues to pay lip service to democracy, and I have no doubt that Chun will step down as promised in 1988. But his replacement will be a man of the same background achieved by whatever means. If things get difficult I would not rule out a replay of the 1979 coup," says one senior Western army officer in Seoul.

Such views may fall to take full account of powerful external factors, such as U.S. pressure or the need in the run up to the 1988 Olympic Games to present an image of maturity.

They may also underestimate the impact of the dramatic social, economic and intellectual changes that have taken place over the past few years, leading some to argue that many Koreans might no longer be prepared to accept undisciplined army intervention.

Such changes have not left the army unaffected. A small number of lower-ranking professional soldiers voted for the opposition in last February's election.

One young army lieutenant says: "The military should confine itself to safeguarding the security of the nation."

Among the small but powerful group of serving and retired military officers involved in politics, such views hold little sway — and it is they after all who call the shots.

Challenge to iron grip of army

The Military
RICHARD COWPER

TO BREAK with tradition is not easy. To relinquish power is perhaps even more difficult. The South Korean army, which for well over two decades has played a pivotal role in politics, business and society is facing such a challenge.

As the country moves towards presidential elections in 1988 and continues to evolve a more complex and sophisticated social and economic structure, many Koreans seem to be calling on the army to move back-stage and allow a peaceful transition of power to a democratically elected civilian ruler. But few are confident that the organisation which has been at the centre of Korean politics for 24 decades is prepared to quickly relinquish its grip.

South Korea is not a Latin American style military dictatorship, but ever since 1961 when General Park Chun Hee toppled the civilian government in a military coup, effective power has been wielded by an army general—albeit retired, and for the most part elections have been a foregone conclusion.

The only real transfer of power occurred on December 12 1979, six weeks after President Park's assassination by his intelligence chief, when Gen Chun Doo Hwan staged a coup d'état against the army chief of staff in which about 100 people were killed.

President Chun still relies on the 500,000-strong army for his ultimate power base, but he has now set himself the task of breaking the tradition of coup d'état by ensuring a peaceful transition of power in 1988. Whether he is interested in paving the way for an army return to barracks, leaving

THE MILITARY BALANCE			
NORTH KOREA		SOUTH	
784,500	ARMED FORCES	422,000	
\$2bn	DEFENCE BUDGET	\$4.3	
740	AIRCRAFT	440	
3,300	TANKS	1,400	
452	SHIPS	98	
55m	RESERVES	55m	

power in the hands of the electorate, remains to be seen. And whether he can achieve it if that is his intention must be doubtful.

Under President Chun, the army—or those sympathetic to it—have held a substantial portion of key power positions in the Cabinet, the bureaucracy and the influential presidential advisory staff.

The armed forces have also continued to be given a major share of the nation's resources—upwards of 6 per cent of GNP—enabling them not only to deal with the security threat but also, among the upper echelons at least, to live well.

The army is no longer the great modernising force it was in society and business, but President Chun has ensured that senior retired officers continue to gain lucrative positions in many medium-sized and large companies.

Brig Brian Burditt, the British military attaché, says:

"At the Changwon industrial complex a few miles south-east of Pusan there are dozens of new factories. Just about every one is run by a two-star general."

South Korea boast the world's seventh largest standing army, which continues to see itself as the elite guardian of society, a role underpinned by the threat from 800,000 hostile North Korean troops just 50 miles or so from Seoul.

Given the high stakes—political, financial and security—many doubt whether the army is prepared to risk the creation of a truly civilian government which might be unsympathetic to its interests.

"There is no significant element in the army at the top level which would like to see a full play of democracy. No one is prepared to take such a chance," says one Seoul diplomat.

If the parliamentary opposition falls apart before 1988 the transfer of power might take place in a relatively democratic

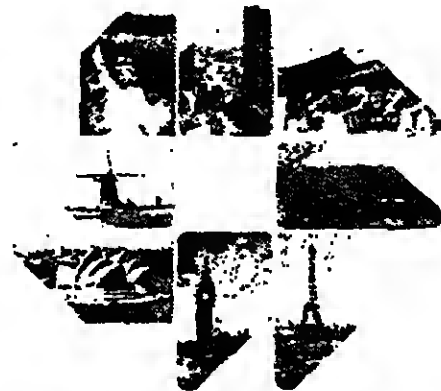
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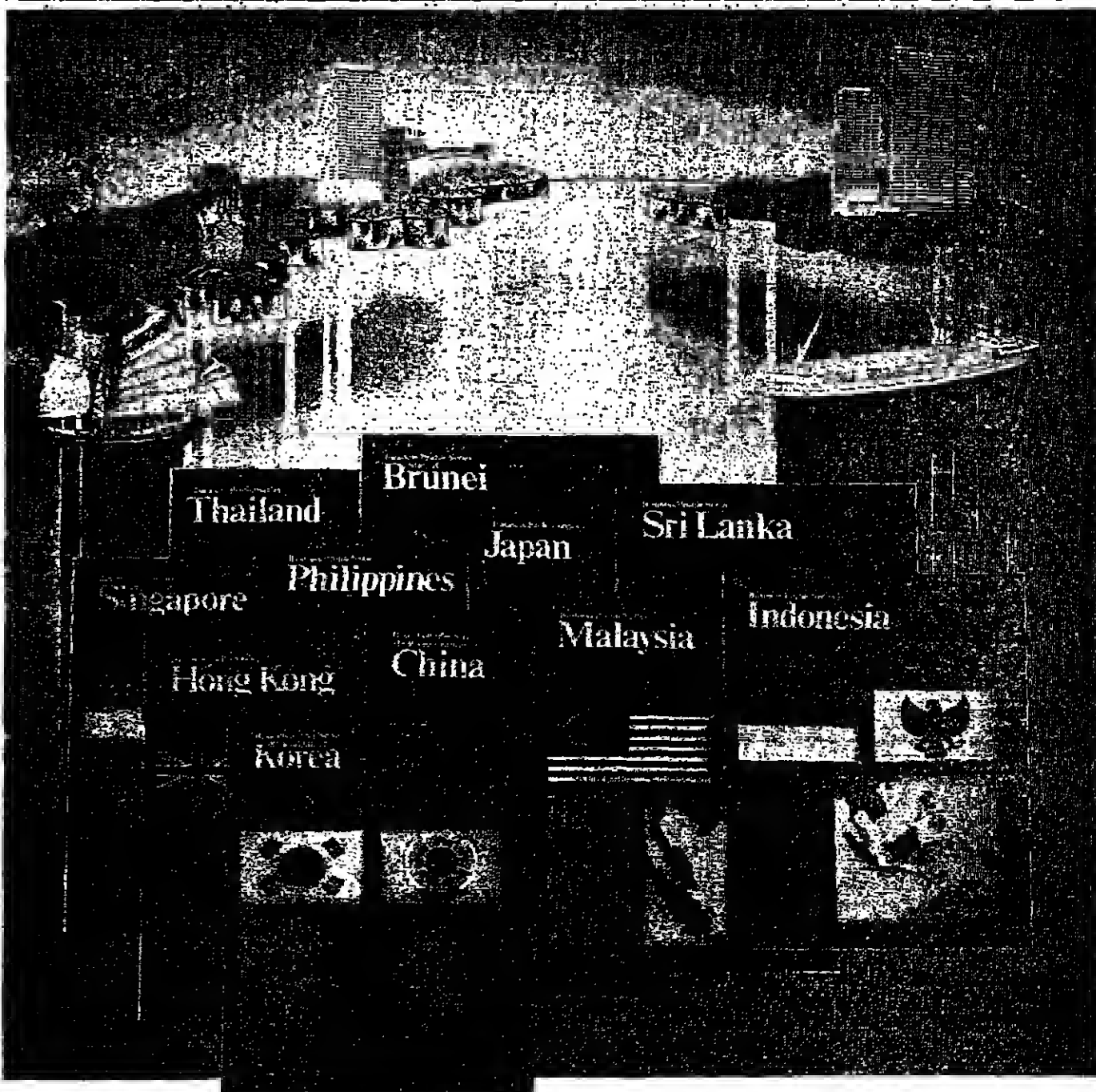
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South Korea 6

Steven Butler looks at the economic pressures of growth

Shock treatment jolts system

Financial Liberalisation

FOR MOST of the South Korean economy, the past decade has been a race to escape from underdevelopment. In the process, a major sector of the economy—financial services—was left far behind.

The Government had used the commercial banks principally to funnel subsidised finance to targeted sectors of the economy. Low interest rates spurred rapid economic growth (and overcapacity in some cases) but bank profits were weak and the deposit base never expanded adequately.

Under the catchword of "liberalisation", the Government has tried with the money supply, interest rates and banking rules for five years. Inflation came down and the rate of domestic savings has gradually risen, but the banks failed to benefit.

Finally, in 1985 the patient may be getting treatment, in the form of sharply higher interest rates, strong enough to send a jolt through the system. That is something the foreign banks are happy to see, because stronger domestic banking may give the Government the confidence to give foreign institutions what they want—equal competition in local currency markets.

Ceiling

The Government began its experiments last year by letting the domestic banks set their own lending rates within a narrow band—between 10 and 10.5 per cent in January then between 10 and 11.5 per cent in November.

The liberalisation had little practical effect, except to raise borrowing rates and help bolster bank profits.

Banks charged the higher rates in virtually all cases because the ceiling rate was still far below what the market would bear, while they continued to borrow from the Bank of Korea's rediscount window at 5 per cent. Although deposit rates also went up, it was not enough to close the gap with short-term finance companies, and the banks' deposit base failed to expand.

This is best illustrated by the ratio of M2 to M3, the narrowest broad definition of money supply. This rate has risen

steadily from 1.42 in 1980 to 1.90 at the end of March this year indicating that the banks steadily lost market share to non-bank investment and finance companies that offered higher rates on short-term transactions.

The Government had fostered the short-term financial institutions principally to draw money in from the unofficial keri market, which in the early 1970s accounted for more than half the volume of domestic loans. Government officials say the keri market has shrunk dramatically in recent years, particularly after scandals highlighted the risks of the market. They have now fixed their eyes on bolstering the bank system.

On April 18 the Government again nudged up interest rates, for the first time putting them at a level that might be competitive. Long-term lending rates rose to 13.5 per cent and some types of long-term deposit rates rose to 13 per cent. At the same time the finance minister indicated that the Government expected a rapid growth of M2 for the year, originally targeted at 9.5 per cent.

The statement appeared to herald a more accommodative monetary policy, but the Government's intention is to shift money from the non-banking sector into the banks. The rate rise is just shy of a true market rate, and puts the Government close to its eventual goal of allowing rates to fluctuate freely.

The Federation of Korean Industries, a business interest group, has complained bitterly that the rise in rates will increase interest expenses throughout the economy. Korean companies have been nurtured on cheap bank financing and are typically highly leveraged. Banks have expressed confidence, however, that the higher rates will make more long-term money available through the banks, decrease the companies' reliance on short-term lending, and reduce overall borrowing costs.

In any case, the interest rate adjustment, if successful, will be just a first step toward putting the banks on a sounder footing. The banks have always worked as bureaucratic dispensers of money for the Government and never developed the technical capability to make sound credit decisions.

Nurtured on the high inflationary environment of the 1970s, the banks' interest in collateral, usually in real estate,

for all loans. They never developed the analytic expertise to make loan decisions, based only on financial information about a company.

The result has been the accumulation of bad debts, which the banks frequently roll over by issuing new loans. Government officials refuse to disclose the amount of non-performing assets, but it involved trillions (million millions) of won.

They admit the problem is serious and may take 15 years to work through the system before the banks can accumulate enough profit to write off the loans.

Meanwhile the foreign banks, which are sounder financially and far more sophisticated in their lending, are trying to shoulder their way into competition with the Koreans on an equal footing. And they are encountering resistance at every step.

Profits

Local newspapers scream about what they call the "wild" or "absurd" profits of the foreign banks. While true in comparison to domestic ones, foreign branch managers must answer to their home offices, which are not always happy with the year-end results.

Foreign banks also say their profits would be even lower if a proper accounting were made of capital depreciation (due to depreciation of the won) and the high cost of maintaining expatriate staff.

Some Government officials see the foreign banks as a stimulus to improve domestic industry; others see them as dangerous competitors who could potentially dominate the domestic market if given free rein.

Foreign banks want greater access to local currency, and earlier this year the Government made the first steps toward giving it. Foreign banks have been given access to the Bank of Korea's rediscount window for export financing, and they will be allowed to enter the trust business.

But the Ministry of Finance seems to be giving with one hand and taking with the other. In spite of technical access to the rediscount window, the banks may not be able to make significant use of it. And if they do, they will have to cut business elsewhere.

Korean companies are barred from borrowing from more than

12 banks for export financing. Most of the large exporters already deal with 12 banks and are unlikely to cease business with a domestic bank to establish ties with a foreign branch.

In addition, for each loan from the rediscount window, the banks face an equivalent reduction in their ceiling for access to won through currency-swap transactions, the largest source of local currency. Access to the window does not mean greater access to won.

Moreover, the new rules reduce the guaranteed margin on currency swaps from 1 per cent to 0.75 per cent. The banks still don't know if they are better off or not.

The opportunity to offer trust accounts this July has similar pitfalls. To raise funds effectively, banks must have to set up a network of branches to draw in deposits. Although many banks are not interested in this type of expansion, others—like Citibank—would move quickly if given the opportunity.

But regulations require foreign banks to capitalise each branch office separately, making it prohibitively costly, and it is not clear that the Government would give approval to new branches.

The new rules for foreign banks require that they lend 25 per cent of new money to small or medium-size industries; domestic banks face a 35 per cent requirement. But that means more paper work, and the foreign banks operate at a disadvantage since they are unable to collateralise loans effectively. The foreign banks lack the networks of local branches that would help identify creditworthy smaller companies.

The experience of the foreign banks is a new dimension of what liberalisation might mean. Korea's political leaders seem intent on making domestic banks march to the tune of genuine competition in financial markets, even if it takes a long time.

But whether that vision of a market-driven financial sector will include foreign competition is an open question. There lingers a suspicion that the move is a response to U.S. pressure to open Korea to American service industries.

Some foreign bankers are optimistic about the long-term strategic "direction" of the changes, but others are wondering if they will have to be "squeezed" out of the local market.



The U.S. and South Korea held two days of talks early this year in Seoul over restrictions on steel exports to North America

Foreign investment sources

	\$m	%
U.S.	886	36.2
Japan	1,005	42.2
Netherlands	115	5.2
Hong Kong	62	2.5
International Finance Co-op	50	2.0
Switzerland	44	1.8
France	37	1.5
W. Germany	27	1.1
UK	27	1.1

Foreign investment application

	\$m	%
Manufacturing	1,200	74.1
Chemicals	290	17.8
Electrical and electronic	263	16.1
Machinery	123	7.4
Services	44.1	2.6
Hotels and Tourism	20.1	1.2
Agriculture & Fishing	1.1	0.1
Mining	0.5	0.0

Outsiders face bias over profits

Foreign Investment

KOREANS have a do-it-yourself spirit. With the economy picking along at a high rate of growth, they have managed to do well by themselves—borrowing from abroad, buying technology, building and managing their factories.

It has been costly. South Korea's foreign debt was \$43.1bn last year, and in spite of the country's excellent international credit standing, bankers say the country would run into trouble if it tried to borrow much more. After the experience with Japan, many foreign companies are also more reluctant to sell their technology to Korea.

Korea's economic policy-makers have faced up to the problem and launched a concerted effort to encourage foreign investment through joint and wholly-owned ventures.

The results have not been entirely satisfactory. Direct investment at the end of March stood at \$1.65bn.

Last year was something of a banner for foreign investment approvals. They increased by 56 per cent to reach \$419m.

This year the Ministry of Finance hopes to attract \$450m of new investment, but there are doubts whether the target can be reached.

Two investors last year accounted for nearly half the total: General Motors, with approval for \$100m investment in automobile and parts manufacturing, and Lotte of Japan, with a \$25.2m hotel scheme in Pusan.

In 1984 too, the Government issued new rules for foreign investors specifying a new automatic approval system. But as even the Ministry of Finance officials admit, the system will not apply to many investments. It covers a broad range of categories, but the foreign investment ratio must be under 50 per cent.

Foreign participation must be under 51m, and there must be no application for a tax holiday.

In any case, according to one foreign businessman: "The problem was never with the investment law, but the way it was implemented."

Korea's policymakers are intent on welcoming foreign investors and making it worthwhile for them to stay, but foreign businessmen in Seoul express doubts that the rest of the Government or the society at large wants to go along. "There is a powerful bias against foreigners," one says. He described a seminar last

year of foreign and Korean businessmen and Government officials which produced a unanimous response from foreigners that profit was the purpose of joint ventures. The Koreans had a very different idea. They looked for increased market share, acquisition of technology, more employment, and greater exports.

When one foreign participant suggested that his company wanted at least a 15 per cent profit, the Koreans loudly protested.

Hurdle
The attitude runs deep. Some companies have murmurings of struggle to repatriate dividends that the foreign investment law says should be automatic. The first hurdle is with the joint venture partner, who probably wants to retain profits.

Several joint ventures have split over this kind of quarrel. The next hurdle can be the Korean banks, who may refuse to release money because it exceeds unpublished guidelines for dividend distributions.

Although companies eventually get their money, it may require many trips to government ministries to receive authorisation.

"Nothing is automatic," an executive says. "Many foreigners see the pervasive role of the Government, extremely onerous. It is present at every stage from approval and licensing to operations and finally to dissolution."

Investors who come in are totally unprepared for it," a businessman says.

Foreign investors have also become wary of the weak protection that Korean law gives to foreign intellectual property. Many say Korea is getting second-rate technology because of it.

It can be puzzling to listen to the carping of the foreign community about business conditions in Korea. The country's attractions are evident—highly productive workforces and low wages—but the complex system of rules for attracting investment and sincerity on the part of government leaders has not convinced the foreigners already there.

Is a larger economic presence palatable to Korea? asks one businessman. "The Korean people are not enamoured of such foreign activity. The Government cannot integrate such foreign companies on its mandated terms and the foreigners march to a different drum—profitability. They prefer the foreign debt capital rather than equity."

Acquisition of technology is also preferably done without entangling an awkward foreign presence.

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Net Worth at April 1, 1985		29,720

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Suspicion about international demands

Stock Market

THE SOUTH KOREA economy is expanding fast—7.6 per cent last year with projections of almost 7 per cent this year. Yet stock prices are low, with average price-earnings ratios close to five.

The past year has seen a torrent of investment managers in Seoul from around the world to take a look at the market. Many believe the market is poised to take off, much as Japan did 20 years ago, and they want to be in at the bottom.

Most have gone away disappointed, however—not in the market, but in the Korean Government. The authorities, even with the authorisation of three investment trusts this year for a total of \$90m, are moving at a snail's pace to quench the international thirst for Korean securities.

Non-resident foreigners are not allowed to own Korean

securities directly. The only way to try in is through one of the six international investment trusts. But even that may not be so easy. Five of the trusts are open-ended in principle, with prices quoted at net asset values, but the government has sharply limited the issue of new shares.

Only one, the Korea Fund, is a closed-end trust. It began trading with an original subscription value of \$60m on the New York Exchange last autumn. Investors bid up the price \$12 to \$16 soon after its listing, but now the price has settled to just over \$13.

The international enthusiasm for Korean stocks seems to have caught the Koreans by surprise. They are slowly digesting what it might mean, and there is a good deal of suspicion.

"We can't let foreigners get all the benefits," one Ministry of Finance official says. "It has to be good for Koreans too."

Foreigners held just over 2 per cent of the market at the end of last year.

The Government has tried for years to foster the stock market, partly to reduce the high corporate debt. Many companies have made an effort to list publicly, often signing up the market companies in family hands. Capital gains are tax exempt, and the Government has intervened repeatedly to cushion the market from external shocks and to chop the high and low of swings in the market by lending money to the securities houses or adding with margin requirements.

The Koreans do not seem to be convinced. "I don't find the enthusiasm among the Koreans that we find among the foreigners," says Mr Ferris Miller, a naturalised Korean citizen who has played the market for more than 20 years.

Mr Miller retired from the Bank of Korea a few years ago and is now a consultant at HanYang Securities, a local brokerage. He is generally bullish on the market, but isn't convinced it will take off as quickly as many foreign investors think.

"It is very fashionable to look to developing countries, hoping they will imitate Japan," he says. "But until we can turn the Koreans around, there won't be any boom."

The market has a short history of just 29 years and is still thinly capitalised at about \$6.2bn. Mr Miller says the market has matured a great deal in those years, though.

"In the 1960s you might as well have gone to the casino and gambled," he says. The market was highly man-

International Trusts in Seoul Stock Market

	Value	Inception (Expansion) 1981	Open or Closed End
Korea International Managed: Korea Investment Trust. Overseas Sponsors: Daewoo Securities, Managed: Vickers Da Costa	\$15m		
Korea Trust Managed: Daehan Investment Trust. Lead overseas underwriters: Merrill Lynch International	\$25m	(1983) 1981	Open
Korea Fund Managed: Citizens Investment Trust. Lead overseas underwriters: Jardine Fleming, Stevens and Clark (U.S.). Underwriting syndicate included First Boston Securities/Amer, International Finance	\$60m	(1983) 1984	Closed
Korea Growth Managed: Citizens Investment Trust. Lead overseas underwriters: Jardine Fleming	\$30m	1985	Open (initial 30% minimum in bonds)
Seoul International Managed: Nikko Securities, Managed: Vickers Da Costa	\$30m	1985	Open (initial 30% minimum in bonds)
Korea Investment Trust. Lead managed: Barling Bros, Vickers Da Costa	\$30m	1985	Open (initial 30% minimum in bonds)
Seoul Trust Managed: Daehan Investment Trust. Lead managed: Prudential-Bache Securities	\$30m	1985	Open (initial 30% minimum in bonds)

high-interest rate market or in appreciating real estate.

The Government has made a strenuous effort to clamp down on real estate speculation—a trend fuelled by the inflation of the 1970s and by rapid urbanisation. It has been fairly successful, but with long-term bank deposit rates recently raised to 13 per cent and inflation at just over 2 per cent, it takes a smart trader to beat a guaranteed interest return.

Many Koreans prefer safety. The Government would like more companies to list on the market but some rules still discourage them. Most companies must offer their shares at par for a new flotation, and that can mean giving the company away. In late April Samil Pharmaceutical Company was oversubscribed by 40 times, even with a 50 per cent premium on the shares.

The Government recently relaxed rules for rights issues at market value, and that should encourage more companies to raise capital in the market. Underwriting, however, can be risky, since underwriters must guarantee a share price for 30

days after flotation.

The market's composite index has been a lacklustre performer. Pegged at 100 at the start of 1980, it peaked at 145.5 on January 7 this year and has since been drifting between 132 and 134 because of sluggishness in the economy.

But the long-term performance of certain industries has been excellent. Topping the list are pharmaceuticals (with an index of 305 on April 29), fabricated metals (288), machinery (253), electronics (208) and food and beverages (202).

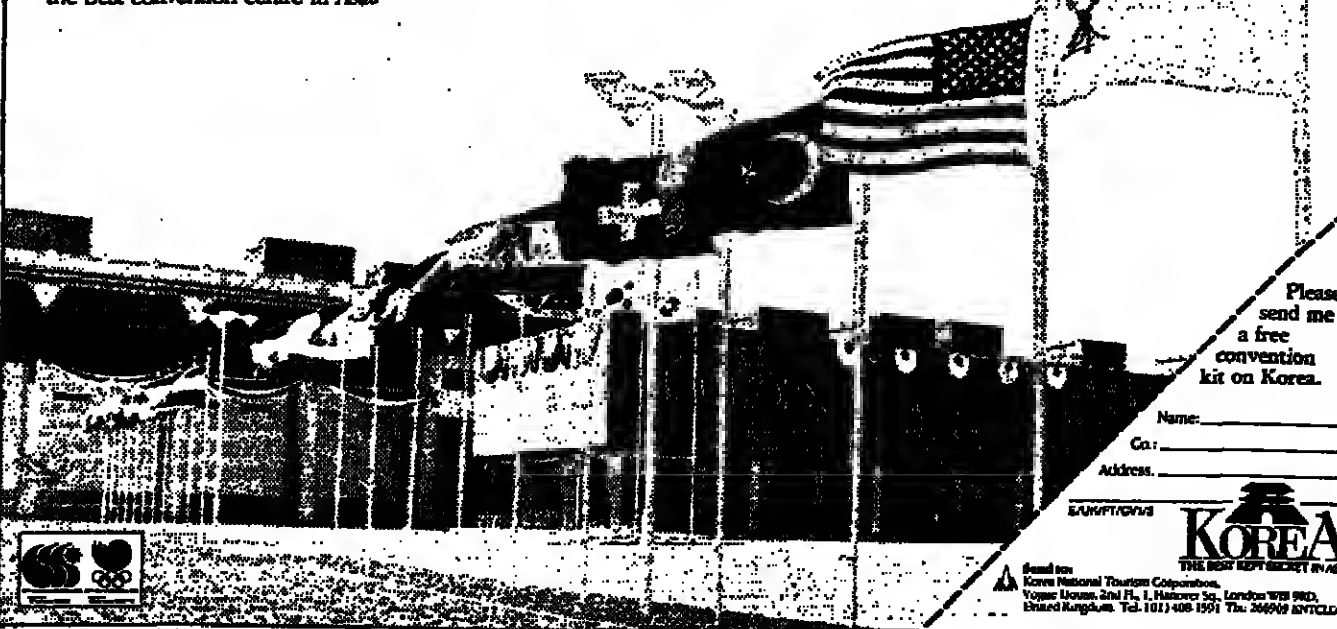
Koreans have a clear preference for small, growth companies. The index of 165 companies capitalised at less than 50m won stood at 229 on April 29. By contrast, the 82 large companies capitalised at more than 150m won have done poorly, with the index at 95.

The market composite index has been pulled down by the poor performance of the overseas construction industry, where the companies tend to be more heavily capitalised.

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Pressure builds after Kukje crash

The Chaebol
STEVEN BUTLER

THE COLLAPSE of the Kukje Group, one of Korea's top 10 business conglomerates, brought into question again the future of the chaebol, companies practically synonymous with Korea's rapid development. Kukje's financial difficulties were more severe, but not fundamentally different from other major conglomerates.

The chaebol comprise Korea's most famous companies—Hyundai, Daewoo, Samsung and Lucky-Goldstar. They were the darlings of the Korean Government in the 1970s, when they were fed by cheap loans aimed at encouraging growth in selected areas.

But the Government's attitude has changed drastically. It now says the chaebol foster inefficiency, that they are excessively diversified, they inhibit competition, and are a drain on the financial resources of the country.

The Government wants to subject them to the rigours of the marketplace, and many observers interpreted the decision to break up Kukje as a tough first step to make the

other groups fall into line. Kukje's demise was a classic case of over-extension. The flagship company of the group, Kukje-ICC, had suffered heavily from the sharp downturn in construction business from the Middle East, while it borrowed to make up for delayed payments from overseas. Its main line of footwear business also faltered and failed to keep its market share. The final straw was a new \$80bn won corporate headquarters, financed largely in the high-cost short-term money market.

Speculation

The group's decline was speeded in November when the Government banned "wanma" transactions, a complex bond repurchase agreement on which the company relied heavily. More than \$100m of emergency funds were provided in December, but in February the banks lowered the boom.

They took the company away from the chairman and transferred management to smaller, healthier companies, promising to honour the company's obligations and issuing loan guarantees to foreign banks.

Bankers, government officials and businessmen agree that the root of Kukje's problems was terrible management. The group never made the transition

from the high-inflation of the 1970s, when real estate speculation and high-volume borrowing (at negative real interest rates) were the key to survival. Mr Yang Cheng-Mo, Kukje chairman, placed his sons-in-law into key management positions and business leaders say they were not in tune with the market.

"They continued to manufacture canvas shoes long after the market changed and we switched to leather," a competitor says. "They had no management skills."

Although the decision to dismantle the group appeared sudden, one senior government economist said the costs of other alternatives—such as forcing Kukje to sell real estate holdings and to spin off some of the group's subsidiaries to raise cash, or to force the group into bankruptcy.

In the aftermath of Kukje's failure, the Government is considering further measures to improve the chaebol's financial structure, force them to shed superfluous subsidiaries and specialise in key manufacturing areas.

"The conglomerates should get rid of their octopus legs," says Mr Ahn Seung Chul, president of the Korea Development Institute. "Instead of big

names getting bigger, I would like to see smaller ones get bigger."

Economists say the groups, in their pursuit of bigness, have squandered managerial talents, stretched their financial resources and concentrated on big-ticket items—such as ships, steel, or construction that are especially vulnerable to swings in economic cycles. The Government would like to foster small and medium-size industries, like in Taiwan, that can respond more rapidly to changes in international demand and provide greater export stability.

Some business executives disagree with the government's more aggressive attitude toward the big groups. "We are not big enough for international competition," says Mr Kim Woo Choong, chairman of Daewoo. This group in 1984 had a consolidated turnover of \$4.24bn and interests in automobiles, electronics, construction, hotels, securities, textiles, heavy machinery, and chemicals. But Mr Kim says that Daewoo's large international competitors have sales 10 to 20 times greater.

He also disputes that the groups are too diversified. "If we had our own technology it would be better to be specialised," he says. "But we do not have our own techno-

logy, and too much specialisation carries too much risk. We need diversification to minimise risk."

A technological trailblazer like IBM can afford to concentrate on a more narrow field, but Korea, as the manufacturing base for markets that it does not create, is more likely to be hurt by changing demand and technology in individual fields, Mr Kim says.

As to government charges that the conglomerates' stronger companies are sheltering weaker subsidiaries, he shrugs his shoulders and asks: "What can we do?"

Domination

"Some of the current trouble areas in the big companies—shipbuilding, overseas construction, heavy machinery—were initially built with government support. They are suffering in part because of external market downturns, and the diversity and strength of the conglomerates in what is keeping those companies alive today to wait for the upturn."

At heart, the Government objects to the conglomerates' weak financial structure and consequent domination of bank lending, which is below market interest rates and rationed. According to testimony at the National Assembly last autumn, the top 30 groups in 1983 accounted for 16 per cent of the nation's GNP, but managed to swallow 48 per cent of bank lending.

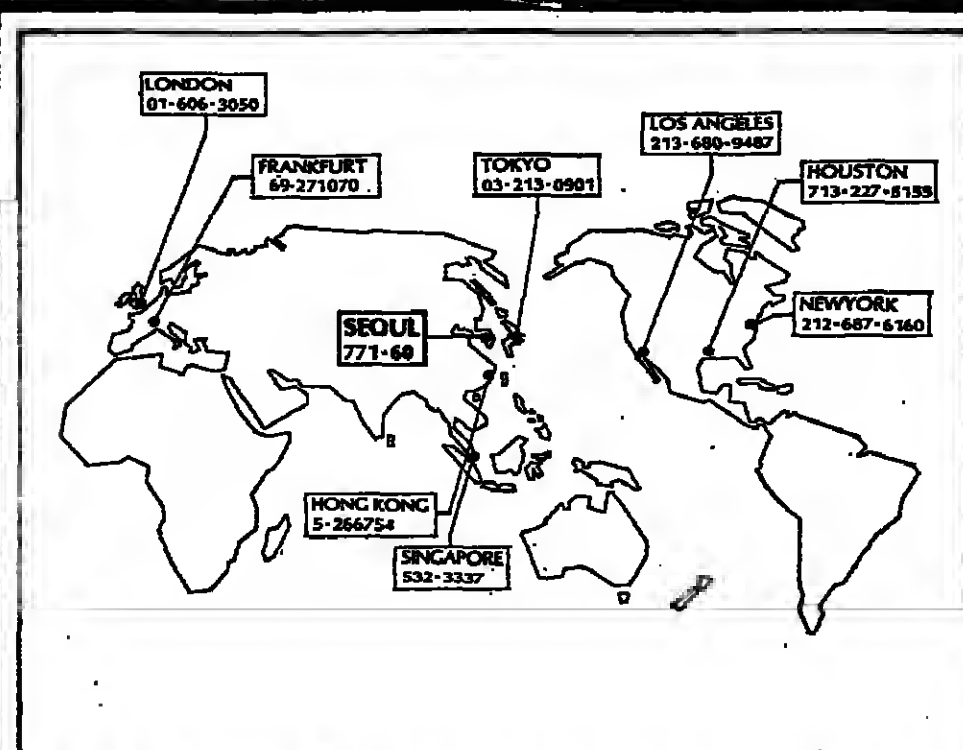
That domination has crowded small and medium-sized companies out of the bank-lending market. The dependence of the big groups on cheap loans is also one of the greatest obstacles to financial liberalisation.

Mr Kim admits his company's debt ratio is too high, although he says the company can handle it. He also accepts criticism that the chaebol should improve capitalisation, and even that corporate ownership should be less concentrated (although not all of Korea's corporate chairmen would be so generous).

But Mr Kim blames the weak financial structure of Korean companies principally on the banking system and on poorly developed markets for capital—factors beyond any single company's control.

One foreign banker agrees: "Korea depended on the big companies for rapid growth and is now paying the price for it," he says.

"This was the best strategy for Korea. But now they have to move carefully to liberalise domestic markets, and it will take time."



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AUTOMOBILES

On the road to export markets

A YEAR AGO Korea's automobile industry had a potential, dimly seen and much speculated about. Now that potential is moving into focus with startling speed.

Within a few years, unless plans go very far off track, Korea will be a major producer and exporter of automobiles, parts, and components—helped by all three main U.S. manufacturers.

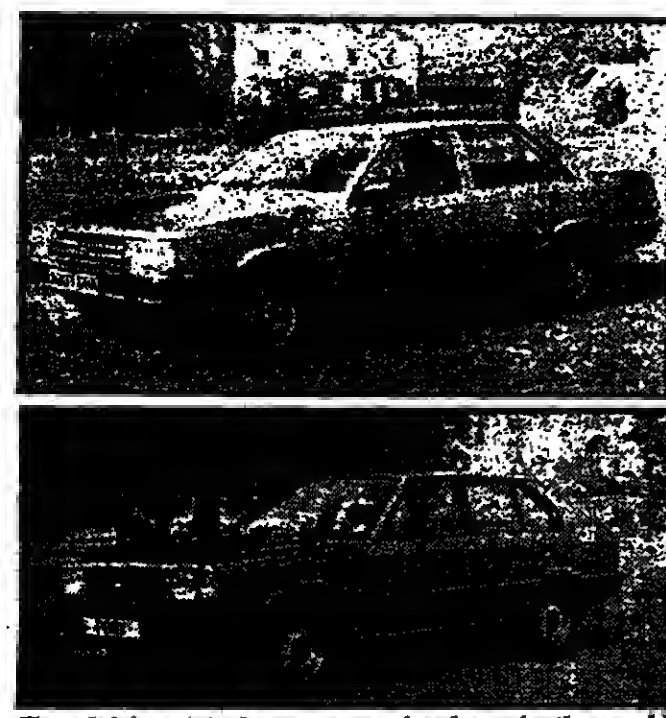
Hyundai made a modest plunge into the Canadian market last year, hoping to sell 6,000 of its low-priced, old-fashioned Pony—a small, rear-wheel-drive car. Mitsubishi of Japan owns a 10 per cent stake in Hyundai and has supplied much of the technology.

Canadian bargain-hunters gobbled up 25,000 of the cars, and Hyundai cleaned up at the bottom of the market.

This year it started a 300,000 vehicle-per-year plant and soon will begin export to the U.S. of its front-wheel-drive Pony Excel. This will again be at the bottom of the market, with prices between \$5,000 and \$6,000 for a basic model. Hyundai hopes to sell 100,000 in the first year.

The company is taking the risky, but potentially very profitable, route of marketing the cars in the U.S. under its own name and network of dealerships.

General Motors was the first big U.S. manufacturer to set up in Korea. GM's joint venture



Hyundai is set to become a major force in the world car market, after finding its feet with models like the Stellar (top) and the Pony.

with Daewoo has for years supplied Korea's domestic market but last year GM agreed to put \$100m into new Korean ventures.

One is to build a plant that will begin producing 187,000 front-wheel-drive cars a year in 1987, up to half for export. The car will be sold in Korea under Daewoo's label, but in the U.S. as a Pontiac.

The two companies are also putting \$80m into manufacturing starter motors, alternators, distributors and coils.

Following Daewoo's lead, Mr Lee Iacocca, Chrysler chairman, came to Seoul to announce a joint venture with Samsung to manufacture car components.

The Chrysler agreement involves links between a range of Chrysler's North American suppliers and small and medium-sized Korean companies, and perhaps the eventual manufacture of cars in Korea.

More international links are on the way. In January the Korean Government authorised Kia to begin producing mass-produced cars again in 1987, following a ban in 1980 as part of industrial restructuring, when it won a monopoly in production of small vans. Now Kia has received an offer from Ford for the export of minivans to the U.S., and is studying other potential agreements with Peugeot and Fiat.

Finally, TRW, a big U.S. parts manufacturer, is planning to set up a joint venture in Korea.

All these agreements will not just mean a few assembly plants and factories, but the birth of an entire world-class industry within a few years.

Mr Iacocca says: "We would not be here if we didn't think that it had great potential. I do not think it should take more than 10 years for Korea to become a formidable competitor."

Steven Butler

ELECTRONICS

Shedding a low quality image

THE Korean electronics industry passed another banner year in 1984, with production increasing 29 per cent to \$7.2bn, and projected to grow by another 20 per cent in 1985.

The industry has emerged as one of Korea's most competitive, with excellent prospects for long-term growth. Electronics exports which grew 38 per cent to reach \$4.2bn, are expected to reach \$6.2bn as the nation's largest.

Although growth was across the board, the more rapid expansion of industrial electronics continued a trend that began several years earlier, and the manufacture of components took a 46 per cent leap as sophisticated semiconductor manufacturing came on stream.

The two largest electronics producers, Samsung and Goldstar, are targeting 1985 as the year to shed their image as low-quality, budget producers in a market they earned with volume exports of colour television sets. Technological agreements with Japanese companies that prohibited export of video recorder machines expired this year, and the first Korean VCRs reached stores in the U.S. in March.

Goldstar and Samsung say they are marketing up-market machines, priced comparably to Japanese brands, and that they will resist pressures to cut prices. Industry analysts give the companies a fighting chance to succeed in remaking their image and improving brand recognition, but say it will take years and could prove costly.

A near three-fold increase in the manufacture of personal computers (nearly 90 per cent, or 900,000 units, of which were exported) led the way in industrial electronics.

Computer terminals more than doubled to 2.13m, worth \$250m. Exports provided for much of the volume, while domestic sales earned cash. The average machine sold domestically had a price tag four times the average export.

The manufacture of integrated circuits became a \$1bn industry last year for the first time as production of 64K RAM chips started in volume. This year Samsung says it will begin mass production of the 256K RAM chip, and Goldstar semiconductor has also decided to jump into the fray.

Other potential entrants Daewoo Telecom and Hyundai Electronics are hanging back to study the market—and with good reason. The worldwide plunge in the prices of 64K RAM chips has caused Samsung to cut production and divert to other kinds of chips.

Industry analysts are worried at the rapid expansion of Korea's semiconductor manufacturing capacity. "If all of them are doing the same thing, it makes no sense," a banker says.

The millions of dollars in semiconductor investments also makes bankers nervous. But all agree that Korea has little choice if it wants to compete.

Steven Butler

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South Korea 8

High stakes in Olympic setting

SOUTH KOREANS are often prepared to take big risks provided the stakes are high enough. So it is with the 1988 Seoul Olympic Games.

The Government hopes the games will be a watershed in the country's troubled post-war history — a symbol of national pride, achievement and legitimacy acknowledged for the first time by the rest of the world.

The Government views the games as achieving four key aims:

- National legitimacy and security. Attendance by the communist world, which after 37 years still does not officially recognise the republic, is seen as the stamp of international legitimacy. It is hoped this will lead to better relations with Moscow and Peking, who may be able to restrain North Korea from military adventures against the South.

- Economic achievement and respectability. The games will present South Korea to the world as a mature and successful middle-ranking industrialised power, which offers a model to the developing world and would soon like to become a member of the OECD.

- Direct and indirect economic spin-offs. By exposing Korea to more than 300,000 Olympic visitors and millions of TV viewers, it is hoped that the games will provide a major flip to the tourist industry and introduce the world to a range of Korean products.

- A slap in the face for Pyongyang. Though no one says it openly, Seoul sees the games as a psychological victory for the south in its struggle against



The symbol of the 1988 Seoul Olympics (left) and the main stadium, holding 100,000 people, when it was opened last year

closer to the de-militarised zone. No one is suggesting this is preparation for an attack, but the security threat to the games is real.

"The Olympic Games is an enormous psychological challenge to the North. There is a fear that Kim Il Sung will try to disrupt them," says one army officer.

There are also lingering doubts as to whether the communist world will turn up. North Korea has campaigned to persuade China, the Soviet Union and its allies to stay away. However, it is a battle that Pyongyang looks increasingly likely to lose.

East Germany has stated its intention to attend and there have been a growing number of sports exchanges between Seoul and Peking over the past year. Moscow seems to have given up its campaign to change the venue and in March sent 12 skating champions to Seoul—the first visit by its

sport figures. What is not in doubt is South Korea's ability to plan, build and organise an event on such a grand scale. Work on the country's biggest project is, as expected for a country that has taken by storm, running ahead of schedule.

The public and private sector are pouring \$3bn into facilities which will provide 32 sports venues, double the size of the underground railway system, quadruple the country's telecommunications facilities and triple Seoul's supply of hotel rooms.

The centrepiece of the games, the 100,000-seat main stadium, was opened last year. Coca-Cola is understood to have agreed to pay \$15m-\$20m and Eastman Kodak \$10m-\$15m to be official sponsors of the Olympics and the 1988 Asian Games, also due to be held in Seoul.

Richard Cowper

Exercise in good taste

MANY OF the inhabitants of Seoul have not been amused by some of the more outlandish zealotry inspired by Korea's Olympic spirit. Civil servants are now supposed to do daily exercises to improve their health—in the Government's words to "create an athletic climate" in time for the games.

Fearful of foreign sensitivities, the Government has also introduced a ban on the sale of traditional Korean dishes containing dog, snake or earthworm, in spite of their revered status as delicacies.

What is needed, say officials, is the development of "new traditional" Korean dishes more acceptable to the Western palate.

Liberated grannies and honeymoon heaven

A FEW years ago, Newsweek magazine listed Cheju Island, 60 miles off Korea's southern coast, as one of the great undiscovered tourist destinations. No hotels and busloads of tourists spoil the natural beauty of this island, whose volcanic peak rises some 6,400 feet up a gentle slope from the sea.

Most of the island's 704 sq miles are covered by pines and forest, with farms sectioned by neat stone fences, of porous black basalt. The slopes lead to dramatic cliffs and waterfalls, to sand beaches or to clear blue water.

In 1985, much to the consternation of local tourism officials, Cheju is still largely undiscovered by most of the world. The Government, not one to take these things lying down, is going to do something to nudge the world along. In February it adopted a master plan calling for 1.3 trillion won (\$1.5bn) of investment in the island over the next five years, with 397m won of that earmarked for tourist facilities.

The plan is suitably grand for Korea, though even this is a retreat from earlier notions of turning the island into the Hong Kong of north-east Asia, with a duty-free port, high-tech electronics assembly and off-shore banking. The Government went so far as to commission Bechtel to conduct a feasibility study.

Common sense finally showed that the island's remoteness and lack of development might not give it the best prerequisites to become an international trade centre.

Some government officials were quietly pushing to scrap any development plans, and it is hard to blame them. Development would mean people, pollution and clutter — the

lack of which are the attractions of Cheju.

The island is not completely undiscovered. It is honeymoon heaven in Korea, the destination of 70 to 80 per cent of newlyweds, according to one local official's estimate.

About 1.34m Korean tourists visited the island last year. Aside from stargazing, climbing, wandering up remote mountain trails, it is a popular destination for large tour groups of halfmoons — grandmothers in Korean.

Old age for Korean women produces a liberation strictly denied them in younger years, and economic development has given them the means to travel. They take the ferries from Pusan or Mokpo and turn their excursions into an orgy of drinking, singing, and dancing that can be a shock if your image of Korean women has been formed by the deferential and dainty hotel staff that most foreigners have contact with.

Tourism: Cheju

STEVEN BUTLER

Even some Koreans are shocked by the old women, who have recently been criticised in the press for their unruliness.

Most Korean work habits are hard on the economies of tourism. Koreans work six days a week for most of the year and short vacations from mid-July to mid-August, when all the popular vacation spots are filled past capacity.

For the rest of the year, hotel occupancy in places like Cheju hovers around 26 to 30 per cent. The Cheju Grand Hotel, one of the island's first-class establishments, was re-

cently sold after accumulating large losses.

The island's authorities are also angling after the international tourist. "We want dollars," one official says. This year the Government expects about 60,000 foreign arrivals, and it hopes to double that by 1991. Most are Japanese who come to the island for hunting, pheasant in the winter and for young Korean girls all year. It is a stopover for the famous Japanese sex tour.

An part of the plan to lure foreigners, Hyatt hotel opened recently in a resort on the southern part of the island. The hotel, which looks like a scooped-out pine-needle with windows, is up to international luxury standards. Officials hope that Hyatt's international reputation will help make the island a four-season resort.

The hotel is staffed with what appear to be recent graduates of hotel schools and they have applied typical Korean diligence to their duties. You can hardly turn around in the hotel without hearing a cheerful: "Have a nice day!" After each bowl of soup, each croissant, each cup of coffee or roll, the restaurant staff will smile and say with quiet assurance: "Enjoy!"

There are still some problems to be worked out like finding sensible explanations why car drivers insist on being paid at least double what their meter reads, or not using the meter at all.

In late April the hotel was fairly sparsely populated, partly with a group of bored expatriate wives from Seoul who came to play bridge for a week.

One said: "There isn't a lot to see here, but at least you can see it all."

Prodigy on brink of adulthood

CONTINUED FROM PAGE 1

maturity. As the infant wonder grows up, its economic talents are starting to provoke jealous hostility from other nations.

Its productivity is becoming a threat to inefficient industries in the U.S., Europe and Japan, as well as a source of envy for other developing countries.

The spectacular growth of exports, which has averaged 18 per cent a year in real terms since 1970 and shows few signs of flagging, is breeding resentment instead of admiration. Barriers against exports of steel, electronics and machinery are rising alongside the familiar restraints on textiles, clothing and footwear. Even where there are no barriers, industrialised nations are asking themselves whether Korea needs or deserves the special privileges which are accorded to weaker developing countries, under the Generalised System of Preferences, for example.

As these external threats build up against Korea's formula of export-led growth its methods of internal economic management are also being called into question. Outsiders, particularly U.S. officials, whose predecessors might have marvelled at the triumph of a "Korean model," are now decrying the concentration of industrial structure, rigid regulation of financial markets, widespread protectionism, detailed central planning and pervasive government intervention.

It is partly in response that the banks have been privatised and the financial markets are being opened. The planners

power may still be enormous but now it is a power to be exercised, cooly, to cope with

disasters, like last year's collapse of the nation's sixth-largest company, the Kukje Group.

It is no longer considered largely the Government's duty to chart the strategic course for Korean industry years, or even decades, ahead.

Similarly, the great conglomerate trading houses, or chaebol, which have been largely responsible for Korea's industrialisation, are becoming unpopular. Nine of them, led by Hyundai, Daewoo, Samsung and Lucky-Goldstar, accounted for 51.3 per cent of the country's exports in 1983.

The Government is determined to cut the chaebol down to size. It aims to unravel what officials call the "octopus legs" of their diverse activities—often stretched from shipbuilding to pharmaceuticals and food retailing — forcing each group to concentrate on a smaller range of industries and leave a greater share of economic activities in the hands of smaller companies.

The collapse of Kukje and the growth of worldwide protectionism have intensified the Government's conviction that the Korean economy needs to become more flexible and less focused on the sort of heavy industrial products in which the chaebol enjoy a natural advantage.

External and theoretical pressures have not been the only motivations for the Government's liberalisation and decentralisation. The growing complexity and maturity of the domestic economy has been the

most important factor.

The new free-market philosophy came into prominence from 1981 after the previous year's debacle when GNP declined for the first time in the post-1962 "miracle" period. The shift took place with few personal changes and with little ideological ferment of the kind seen in the early 1980s, as other nations wholeheartedly embraced "market forces".

In Korea economic philosophy appears to be a matter of ideology or theory but "can-do" pragmatism. The planners recognise only two goals. "To make sure the economy grows at its full long-term potential and to create an adequate distribution of welfare," as one planner puts it.

According to the semi-official Korean Development Institute, this potential growth rate is currently 7.5 per cent and will stay between 7 and 8 per cent until the year 2000.

In spite of protectionism, maturing industries and competition from lower-cost producers like China and India, these growth rates can and will be achieved, Korean planners confidently assert.

"If our present approach fails, we will try other methods," says one senior official, who has been in the forefront of the current moves towards economic liberalisation.

Perhaps Korean politicians, as well as economists, can show that sort of flexibility. If they do, Korea's first 20 years as an advanced industrial country may be as successful as its last 20 years of membership in the Third World.

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